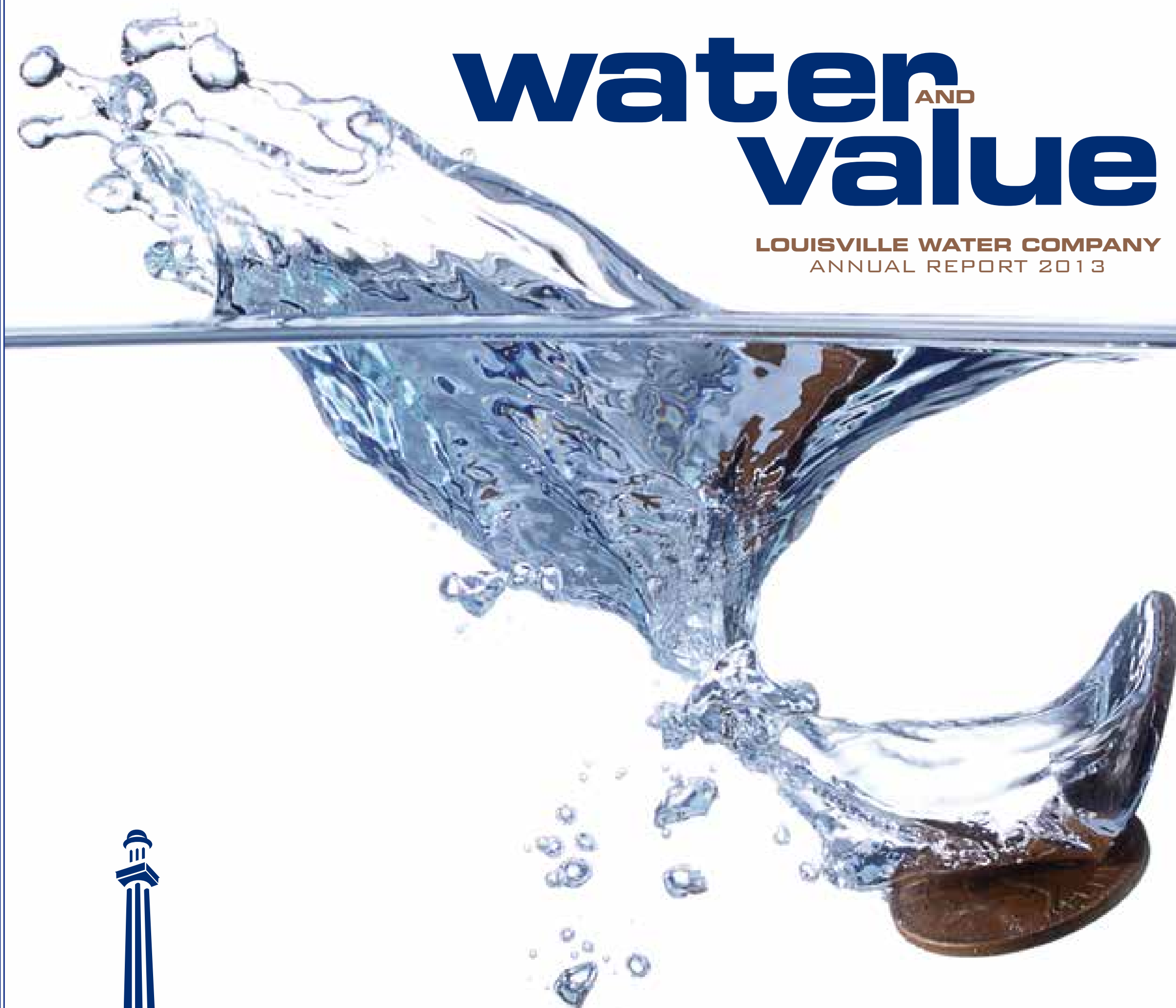
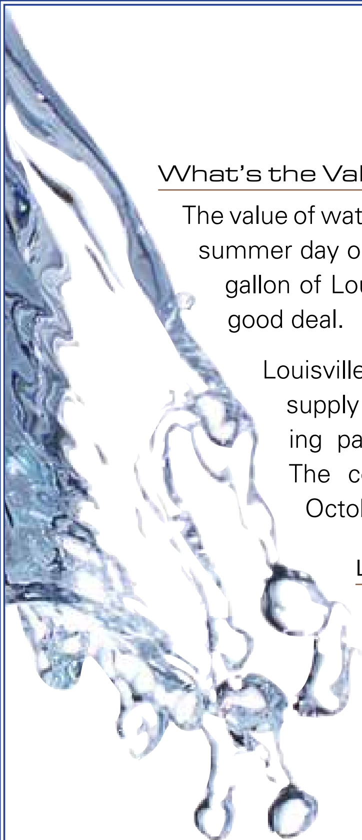
water AND value

LOUISVILLE WATER COMPANY
ANNUAL REPORT 2013



LOUISVILLE WATER®
since 1854



What's the Value of Water?

The value of water can be found in public health, fire protection, a cool drink on a hot summer day or a nice meal at a local restaurant. It costs less than a penny for a gallon of Louisville Water, but Louisville Water's value extends beyond just a good deal.

Louisville Water is a lifeline to the region, supplying a safe, high-quality supply of water to 850,000 people in Louisville Metro and surrounding parts of Bullitt, Nelson, Oldham, Shelby and Spencer counties. The company started as Kentucky's first public water provider in October 1860.

Louisville Water Vision

To be the water supplier of choice throughout the Louisville region by:

- Providing best-of-class quality, customer service, innovation and value
- Expanding the geographic areas we serve
- Creating new lines of water-related businesses that build on existing competencies

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VALUE  *It costs less than a penny for a gallon of Louisville Water.*

JAMES H. BRAMMELL
President/CEO
Louisville Water Company

I am pleased to present Louisville Water Company's 2013 Annual Report. The word "value" is often associated with water and for good reason. Louisville Water is a lifeline to the region, providing a reliable, high-quality supply of drinking water for just a few cents a day. As you read about our success in 2013, you will notice that value extends beyond just affordability to innovation, customer service, fire protection and quality of life.

It is an honor to serve as Louisville Water's 18th president. I assumed this role in July, following Greg Heitzman, who ended a distinguished 30-year-career at this company in 2013 to become the Executive Director at Louisville MSD.

In 2013, Louisville Water and MSD worked together to advance the concept of consolidating services, an initiative we call "One Water." A Due Diligence Team consisting of executive leadership from both organizations completed eight months of critical analyses to examine the benefits and risks associated with combining MSD and Louisville Water Company. The team concluded that a full consolidation is not advisable at this time and recommended to Mayor Greg Fischer the creation of a Comprehensive Interlocal Agreement strategy as a logical first step for the One Water concept. This strategy includes sharing certain support services and provides the opportunity for significant cost savings. It also protects the unique governance structure of Louisville Water. In 2014, we will begin to combine select support functions and continue to identify other opportunities for synergies. We already work closely with MSD on billing and customer service. Our goal in sharing services is to provide for more efficient operations and reduce the size of future rate increases while continuing to provide the community with outstanding service and value.

Success in the Midst of Financial Challenges

Louisville Water, like many water utilities, continues to see a decline in water consumption. For 2013, frequent rainfall and a cooler-than-normal summer contributed to decreased water use. Water consumption dropped to its lowest level in over 40 years and Louisville Water faced an $8 million deficit in revenue. However, a determined focus on cost containment helped us overcome the deficit and provide our owner, Louisville Metro, with a $19.6 million dividend. We continue to see positive trends in other revenue, including our regionalization efforts. We formed a new partnership with Hardin County Water District No.2 and expanded a partnership with Lebanon Junction.

Quality Product and National Recognition

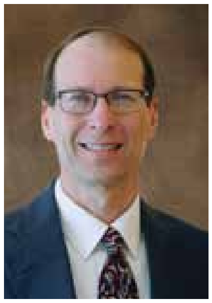
Customers often praise the taste of our water, and once again in 2013, our peers recognized that excellence as Louisville Water was awarded the "People's Choice for Best-Tasting Tap Water in North America" by the American Water Works Association. Louisville Water also received the highest honor for utility performance from the Association of Metropolitan Water Agencies.

The partnership we have with our labor union, Local 1683, is considered a national model. In 2013, Billy Meeks the Local's longest-serving union president and a staunch advocate for creating our labor-management partnership, retired. Billy's 23 years of service to this company and Local 1683 set a standard for years to come.

Our employees really do make the difference in the service we provide. It is an honor to lead an organization where quality, service, value and innovation are among our core values.

James H. Brammell
President/CEO

Spencer Bruce
Vice President
Chief Engineer



Jim Grunow
Interim Vice President
Chief Engineer
(July - December 2013)

2013 was a year of transition as Chief Engineer Jim Brammell was named President and CEO of Louisville Water. Jim Grunow served as Interim Vice President and Chief Engineer until Spencer Bruce was named to the position in December.

Treatment Plant Operations

In the fall of 2013, we successfully completed a four-year project to rebuild the Crescent Hill Filtration Plant. This project was the largest investment at the plant since it opened in 1909 and allows Louisville Water to continue to exceed the Environmental Protection Agency's drinking water standards.

The largest component of this $90 million project was renovating the east filters and installing a new backwash system. This $35.5 million investment allows for more effective filtration of the drinking water and a more reliable system for cleaning the 14 filters. In 2013, we also completed renovating the north coagulation basins and upgrading the accompanying facility. This was the first renovation of the basins, some of which were originally installed in the 1950s.

At the B.E. Payne Treatment Plant, work was well-underway to construct a facility that will allow the production of a dilute sodium hypochlorite solution. We installed a similar system at the Crescent Hill Plant in 2010. This $9.3 million facility eliminates the risk of storing gaseous chlorine and creates a much safer environment for our employees and the community.

Fourteen filters were renovated at the Crescent Hill Filtration Plant.

The chlorine generation facility at the B.E. Payne Plant will be complete in 2014.

VALUE

The Ohio River provides an abundant water source; over 75 billion gallons of water flow by Louisville daily.

In addition, we began designing a system that will allow us to eliminate storing the remaining Process Safety Management regulated chemical at the treatment plants: ammonia. Ammonia is used to produce chloramine for disinfection. We are developing a system that would replace gaseous ammonia with a much safer aqueous ammonia feed-and-storage system. We will implement the project first at the B.E. Payne Plant and then at the Crescent Hill facility. The systems should be in place at both plants in 2015.

Transmission Main Assessment

Louisville Water has an ongoing commitment to assess its critical transmission mains. Our initial focus is pre-stressed concrete cylinder pipe (PCCP). Using a robotic tool, we successfully inspected nearly 14 miles of a 24-inch PCCP that stretches across the northern part of Jefferson County. The inspection allowed us to proactively repair or replace weak sections of this main.

Based on the results of a 2011 inspection, we rehabilitated six sections of a 60-inch PCCP between Spring Farm Road and English

Crews inspect and repair transmission mains.

Station Road using a carbon fiber wrap. Louisville Water has nearly 100 miles of PCCP as part of the transmission main system; and our goal is to inspect all of this main in a 10-year program.

In 2013, we invested $5.2 million in replacing or repairing smaller diameter water mains. This annual effort ensures the reliability of our distribution system. Louisville Water also continues to replace lead service lines, with 694 services renewed in 2013.

Riverbank Filtration at Crescent Hill Filtration Plant

We began preliminary engineering in 2013 to install riverbank filtration at the Crescent Hill Plant. We have had outstanding success with this advanced treatment technology at the B.E. Payne Plant; it supplies a higher quality of source water since the water is naturally filtered in the aquifer rather than drawn directly from the Ohio River.

The preliminary engineering includes installing test wells to analyze ground water and subsurface investigations to evaluate the feasibility of a tunnel system to collect ground water. A riverbank filtration system using a tunnel-and-well system would be a much larger initiative for the Crescent Hill Plant as compared to the B.E. Payne facility. We will use this engineering report to determine the feasibility, configuration and estimated cost for riverbank filtration.

Wolf Pen Branch Project

Louisville Water now has a backup supply line to serve the northeastern part of our service area. We completed the Wolf Pen Branch Phase II 36-inch transmission main project in December 2013, installing over three miles of pre-stressed concrete cylinder pipe along Springdale Road and Hurstbourne Lane. This $6.5 million project required intense coordi-

Wolf Pen Branch Transmission Main Project.

nation as the main crossed an interstate highway and high-traffic neighborhood roads. The 36-inch transmission main provides a redundant supply to a portion of a 60-inch transmission main.

Gatehouse Restoration

The Crescent Hill Reservoir and Gatehouse are some of Louisville Water's oldest facilities, dating back to 1878. The reservoir is part of our treatment operations today, and the Gatehouse includes the original valves used to control the flow of water in and out of the basins. The facilities are listed as Kentucky Historic Sites. Scaffolding went up around the Gatehouse in late 2013 as we began a $2 million restoration project to replace the slate roof, repair masonry and rehabilitate the interior of the structure. The reservoir is a popular community walking destination, and we are coordinating work to limit interruptions to the public. We regularly host tours of the Gatehouse and will resume those when the project is complete in 2014.

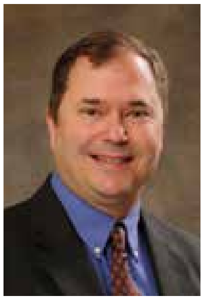
Partnership for Safe Water Award

Louisville Water was one of three water utilities in the United States recognized by the Partnership for Safe Water for excellence in distribution system operations. Recently, the Partnership expanded from water-treatment optimization to water quality optimization in distribution systems to ensure a high-quality, safe supply of drinking water is delivered to customers' taps. The program consists of four phases: commitment, baseline and annual data collection, self-assessment, and optimized performance. Louisville Water was among three utilities to first receive the Phase III designation.

The slate roof on the Gatehouse will be replaced for the first time in the building's 130-year history.

VALUE

Louisville Water maintains over 4,100 miles of water main.



Dave Vogel
Vice President
Customer Service

Customer Care and Billing Project

Louisville Water continues to see positive trends in how customers view our performance. In 2013, the Customer Satisfaction Index finished at its highest annual average since 2003. This opinion-based survey looks at customer attitudes towards quality, service, reliability, information and value. In addition, the service index of the survey noted its highest annual score on record. This survey measures perceptions of customers who had a transaction with Louisville Water through perhaps a bill question or a service order.

On the heels of this performance, Louisville Water launched its largest project to date for improved customer service. In July, we kicked-off the Customer Care and Billing Project, a $29 million initiative to replace the company's billing and mobile work-force management systems. The project team is cross-functional and includes 40 employees from Louisville Water and MSD, along with members of Oracle and Five Point Consultants. When complete in early 2015, the new system will allow for improved customer interactions in-person, on the phone, and through web and mobile channels.

MSD is actively participating in the Customer Care and Billing Project, and in 2013 we executed a new billing agreement with the District. A cost-of-service and benchmarking study helped develop an annual fee schedule that MSD will pay to Louisville Water for billing services. The agreement capped months of negotiations that will ultimately benefit both organizations and represents the largest collaborative effort between the two entities.

Two work areas were constructed at the John L. Huber building to allow team members to collaborate on the Customer Care and Billing project.

The Customer Care and Billing System will provide additional options for Louisville Water's Customer Care Representatives.

VALUE

In 2013, Louisville Water service cost 72 cents a day for the average residential customer.

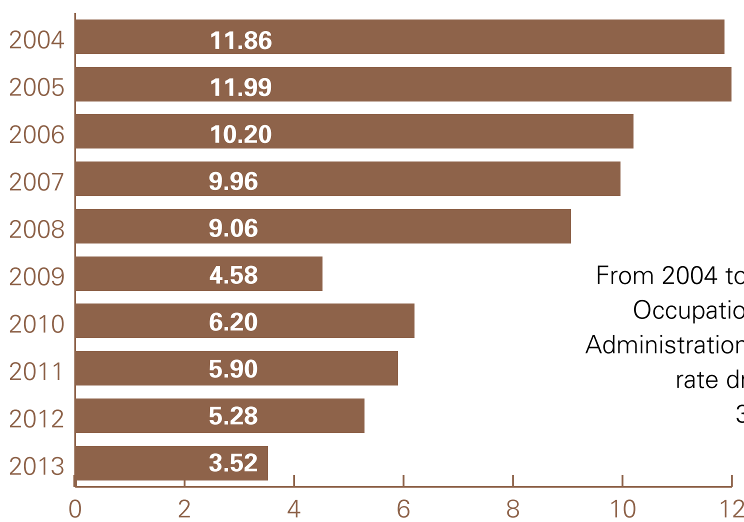
Customer Assistance Program

We continue to grow the program to help customers who have difficulty paying their water and sewer bill. In 2013, the Customer Assistance Program provided $99,512 to three local entities that work directly with clients. Funding is based on 10% of the proceeds from the home protection programs along with a donation from HomeServe, the company that administers the protection program. Since 2010, the Customer Assistance Program has steadily grown and to date has provided assistance to over 2,800 families.

Safety—A Record Year

Louisville Water continued its focus on employee safety, and in 2013 we achieved our best safety performance on record. Driven by employees, we continue to strive for zero injuries and the development of a culture where everyone goes home in the same condition as they arrived at work. For the first time, Louisville Water outperformed its peers in work-related injury rates (as published by the Bureau of Labor Statistics) and continued the journey toward world-class safety performance.

Conversations about safety are part of daily team meetings at Louisville Water.



From 2004 to 2013, Louisville Water's Occupational Safety and Health Administration (OSHA) recordable injury rate dropped by 70% to 3.52 in 2013.

Louisville Water has wholesale contracts with eight water providers in Bullitt, Hardin, Nelson, Shelby and Spencer Counties. In 2013, we finalized a new wholesale agreement with Hardin County Water District No. 2 and expanded our partnership with the city of Lebanon Junction.

Lebanon Junction Partnership

An expanded wholesale agreement secures the water needs for Lebanon Junction in Bullitt County for the next 40 years. In December, we finalized an agreement that calls for Lebanon Junction to receive 100% of its water from Louisville Water, around 60 million gallons annually. Lebanon Junction has been a wholesale customer since 2000, but only purchased about half of its annual water supply from Louisville Water. To make the connection, we are investing $188,000 to install a small section of six and eight-inch water main and new master meter. The improvements allow Lebanon Junction to provide improved water pressure and install additional fire hydrants. We expect to fully convert Lebanon Junction to Louisville Water by the spring of 2014.

Hardin County Water District No. 2

A new water-purchase agreement with Hardin County Water District No. 2 will help secure the needs of a growing part of Hardin County. In May, we finalized an agreement that includes the District purchasing a minimum of 60 million gallons of water a year from Louisville Water in 2016 and then increasing that amount to 365 million gallons by 2021.

Both Louisville Water and the District are making investments in the partnership. In Hardin County, the District will construct up to 11 miles of 24-inch diameter main, construct a pumping station and an elevated storage

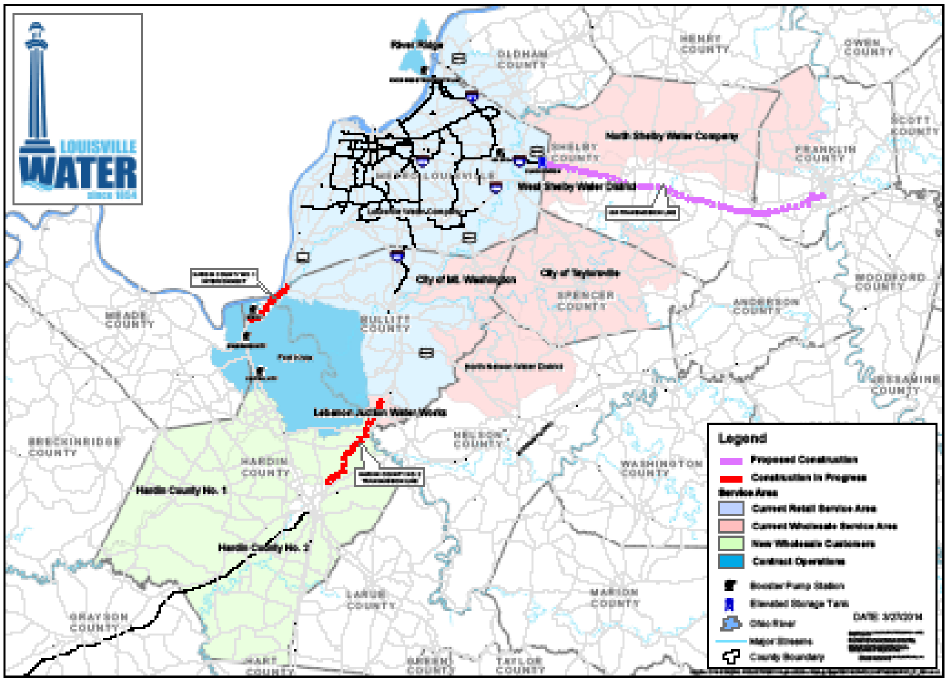
Louisville Water President/CEO Jim Brammell and Lebanon Junction Mayor Butch Sweat sign a partnership agreement.

Hardin County Water District No. 2 is constructing an elevated tank and installing water main to connect to Louisville Water.

VALUE

Fire Protection: Louisville Water maintains over 23,000 public fire hydrants.

Regional Partnerships



tank. Louisville Water is installing four miles of water main and building a pumping station at an estimated cost of $5.8 million.

The District serves a large part of Hardin County and provides water on a supplemental basis to utilities including the city of Hodgenville, and Larue, Edmonson and Grayson County Water Districts.

Hardin County Water District 1 and Fort Knox Operations

We concluded the first year of operations of the water treatment and pumping systems on the Fort Knox military post through a contract partnership with Hardin County Water District 1 (HCWD1). Our partnership includes operations and a water-purchase agreement. By the end of 2013, HCWD1 had nearly completed the design of a 16-inch transmission main that will connect to Louisville Water and allow the purchase of up to 3.5 million gallons of water daily. Louisville Water engineers also are working with HCWD1 as it converts its treatment plant to a chloramine disinfection system.

Southern Indiana

Operations at the River Ridge Commerce Center in Clark County continue to be successful. Louisville Water is a contract partner with River Ridge Development Authority for operation of the water plant that serves commercial and industrial customers at the 6,000-acre site. The Indiana Department of Natural Resources owns the water system.

In 2013, the average daily delivery was 350,000 gallons and increased to nearly a half-million gallons in the summer with irrigation. The plant's capacity is two million gallons a day, ensuring an ample supply for future growth. The Commerce Center continues to attract new business, and the planned construction of a heavy-haul road from the Port of Indiana to River Ridge and the Louisville-Southern Indiana Bridges Projects will further enhance its appeal.

Louisville pure tap®—the People's Choice

Louisville is known for its outstanding water quality and great-tasting product, and once again our peers have recognized the value of Louisville pure tap®. Louisville's drinking water was named the "People's Choice for Best-Tasting Tap Water in North America" by attendees at the American Water Works Association annual conference. It is the second time in five years that the Association has honored Louisville Water with national recognition.

The Louisville pure tap® campaign was part of over 250 community, school and sporting events in 2013 with compostable cups, coolers, water pitchers, and BPA-free bottles, and often attendance by Louisville Water staff. The campaign promotes the quality and value of tap water and provides a convenient and "green" way for guests to stay hydrated.

For the first time, Louisville Water hosted a family-friendly race at its corporate landmark. The Louisville pure tap® 5k began and ended at the Louisville Water Tower. This partnership with the Louisville Sports Commission is part of a new fall run-a-thon.

Adventures in Water Education

Using water as the foundation for science and social studies curriculum is at the core of the Adventures in Water education program. In 2013, Louisville Water educators worked with 43,500 students at nearly 100 schools in Jefferson and surrounding counties. A new partnership with high schools in Jefferson County Public Schools allows health magnet-school students to teach water curriculum in elementary schools.

A highlight of the outreach is the Adventures in Water Festival. This annual event draws

Louisville Water employees and Tapper offer a "toast" following the national Best-Tasting Tap Water award.

One-thousand runners took part in the Louisville pure tap® 5k.

students from over 20 schools to the Louisville Water Tower for hands-on activities with water.

Community Engagement

Louisville Water employees are actively engaged in the communities we serve. In 2013, employees volunteered over 4,595 hours to 100 organizations. To complement the company's mission of improving public health and quality of life, Louisville Water created a foundation in 2013. The Louisville Water Foundation provides water assistance and water education here at home and around the world. Louisville Water began the Foundation with a one-time $50,000 donation. The Foundation will operate with a percentage of the proceeds from the company's water-line protection program and donations from individuals, corporations and government entities. The Foundation announced its first gift in December of 2013, a $10,000 donation to WaterStep, a Louisville-based water relief organization, as part of emergency assistance after a catastrophic typhoon hit the Philippines.

The Foundation is one of four local entities benefiting from Louisville Water's annual Combined Giving Campaign. In 2013, employees pledged $162,213 to benefit the Fund for the Arts, Metro United Way, Water for People and the Louisville Water Foundation.

Louisville Water's dental partnership, Smile Kentucky! received national recognition from the American Dental Association. The Association highlighted the program at its national kick-off location for Children's Dental Health Month in February. Smile Kentucky! provides dental education, screenings and treatment to children. In 2013, over 12,000 children took part in education programs, and 300 received free dental treatment.

Members of Local 1683 tap a water main at the Adventures in Water Festival.

LOUISVILLE WATER foundation quality of life

Now in its 11th year, Smile Kentucky! has provided over $1 million in free dentistry.

VALUE  Get back to the tap—the recommended amount of drinking water for good health costs around 50 cents annually at the tap.

Restoring Pumping Station No. 1 at Louisville Water Tower Park

In January, Louisville Water began a 13-month project to restore and renovate the interior of its original pumping station built in 1860. The project included taking the facility back to closely resemble its original pre-Civil War condition. Up to 70 layers of paint were removed, a cast-iron and brass spiral staircase was restored, and all of the original wood and brick was repainted. Pumping Station No. 1 will have new life as a rental facility and as the WaterWorks Museum. The museum highlights Louisville Water's considerable archive of historic photographs, film and memorabilia and allows visitors to discover how water "works" throughout the community.

Along with the restoration, we have rebranded the site as "Louisville Water Tower Park" to call attention to the over 150-year connection between Louisville Water and the community. The WaterWorks Museum opened to the public March 1, 2014, and will host thousands of school children and visitors each year. The facility also will welcome special events, including festivals, weddings and private meetings.

LOUISVILLE
WATER
TOWER
PARK

VALUE

The Louisville Water Tower and Original Pumping Station are one of eight National Historic Landmarks in Louisville.

Achievement Awards

American Society of Civil Engineers, Distinguished Service Award - Denise Hettinger

Association of Metropolitan Water Agencies, Platinum Award for Utility Management and Performance

Fund for the Arts, 16th Largest Employee Campaign in Louisville Metro

Kentucky/Tennessee Section American Water Works Association, Outstanding Customer Service Award - Rosalind Bridges

Kentucky/Tennessee Section American Water Works Association, Outstanding Social Media Campaign Award, Louisville pure tap® program

Kentucky/Tennessee Section American Water Works Association, Internal Communications Award for Louisville Water's Combined Giving Campaign

Kentucky/Tennessee Section American Water Works Association, Award of Excellence for Water Distribution

Advanced Treatment Technology Program Manager Kay Ball *received the "Fuller Award" from the Kentucky/Tennessee Section American Water Works Association, one of the highest achievements awarded to individuals in the water industry.*

The American Institute of Architects named Louisville Water's Original Pumping Station and Water Tower as one of "Ten Buildings that Changed Louisville."

Louisville Water's men's Tapping Team placed 2nd at the Kentucky/Tennessee American Water Works Association Conference.

Louisville pure tap® is named the "People's Choice" for Best-Tasting Tap Water in North America by the American Water Works Association.

Boards and Commissions

American Public Works Association Kentucky Chapter Board - Wayne Whitehouse, Director

American Red Cross Louisville Area Chapter Board - Dave Vogel, Director

Association of Metropolitan Water Agencies - Greg Heitzman, Member

American Society of Mechanical Engineers, Louisville Section - Ralph McCord, Chair

American Society of Civil Engineers Kentucky Chapter - Shanaka Ewing, Treasurer

American Water Works Association (AWWA) KY/TN Section Water Utility Council - Vince Guenthner, Chair

AWWA KY/TN Section Diversity Committee - Daniel Tegene, Vice Chair

AWWA KY/TN Section Public Information Committee - Kelley Dearing Smith, Chair

AWWA National Finance and Accounting Management Controls Committee - Amber Halloran, Chair

AWWA Water Research Foundation - Greg Heitzman, Trustee

Boy Scouts of America, Lincoln Heritage Council - Greg Heitzman, Member

Business Diversity Network - Johnnie Rice, Chair

Fairdale High School Construction Trade Board - Spencer Bruce, Member

Fund for the Arts - Greg Heitzman, Member,

Greater Louisville, Inc. - Greg Heitzman, Member

Harbor House of Louisville Board - Roger LeMaster, Member

InfraGard Kentucky Water Sector - Glen Mudd, Chair

Institute of Electrical and Electronics Engineers, Louisville Chapter Executive Committee - Larry Bryant, Member

Interlink Counseling Services Treatment Center Board - Brian Bobbitt, Member

International Facility Management Association, Greater Louisville Chapter - James Mok, President

Jefferson Community & Technical College Advisory Board - Michael Bryant, Member

Kentuckiana Construction Users Council Board - David Simmons, Member

Kentuckiana Regional Planning & Development Agency - Jim Grunow, Bullitt County Water Management Council and Jim Smith, Oldham County Water Management Council

Kentucky 811 Board - Harold Hunt, Member

Kentucky Chapter of Hazardous Materials Managers Board - Ralph McCord, Director

Kentucky Dental Foundation Board - Kelley Dearing Smith, Member

Kentucky Derby Festival Board - Jim Brammell, Member and Event Chair

Kentucky/Indiana Exchange - *Greg Heitzman and Jim Brammell, Members*

Kentucky Industry Liaison Group Board - Kathy Schroeder, Member

Kentucky State American Society of Civil Engineers Board of Governors - Daniel Tegene, Member

Kentucky Water/Wastewater Agency Response Network - Glen Mudd, Vice Chair

Leadership Kentucky Foundation - Barbara Dickens, Executive Committee Member

Lincoln Foundation Board – Ed Chestnut, Member

Louisville Better Business Bureau Board - Greg Heitzman, Secretary

Louisville/Jefferson Co. Information Consortium Board - Jim Brammell, Member

Louisville Metro-Animal Services Board - Jim Brammell, Chair & Amber Halloran, Treasurer

Louisville Metro Merit Board - Barbara Dickens, Member

Louisville Sports Commission Board - Amber Halloran, Treasurer

River Road Business Association Board - Greg Heitzman and Jim Brammell, Members

Rotary Club of Louisville Grant Committee - Amber Halloran, Chair

Salvation Army Louisville Area Command Advisory Board - Kim Reed, Member

The Center for Women and Families Board - Barbara Dickens, Member

WaterStep Advisory Board - Greg Heitzman, Member

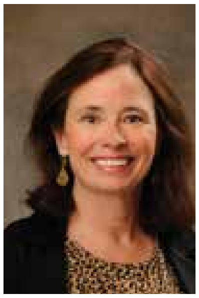
Water Information Sharing and Analysis Center - Greg Heitzman, Member

UofL Center for Infrastructure Research Advisory Board - Jim Brammell and Keith Coombs, Members

UofL Center for Labor/Management Advisory Board - Kathy Schroeder, Member

UofL School of Public Health & Information Sciences Board - Jim Brammell, Member

Urban Renewal Commission Housing Development Board - Lisa Ogburn, Member



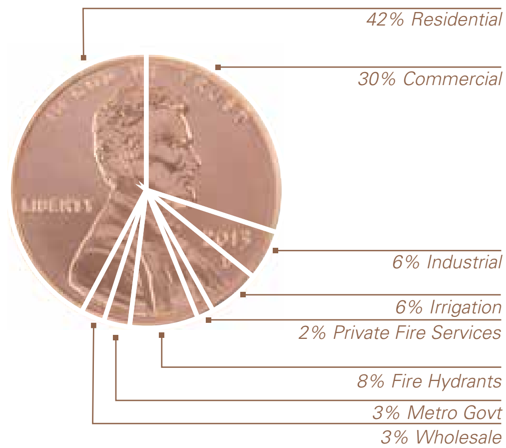
Amber Halloran
Vice President, Finance - Treasurer

Louisville Water had a strong financial performance in 2013 and continued to provide some of the lowest water rates in the region. The success came in the midst of declining water sales as a cool irrigation season helped push water consumption down to 33.9 billion gallons– the lowest level since 1969. Despite the downward trend, we continue to see growth in water-related and regionalization revenue. Financial results provided for continued investment in our infrastructure and new technology and a return to our shareholder, Louisville Metro, of a $19.6 million dividend and $15.4 in free water and fire protection for a total value of $35 million.

Standard & Poor's Rating Services affirmed its "AAA" long-term and underlying ratings for the Board of Water Works' revenue bonds. Standard & Poor continues to give Louisville Water its highest rating, noting the strong financial operations of the company, the long-term planning efforts and the risk management and controls.

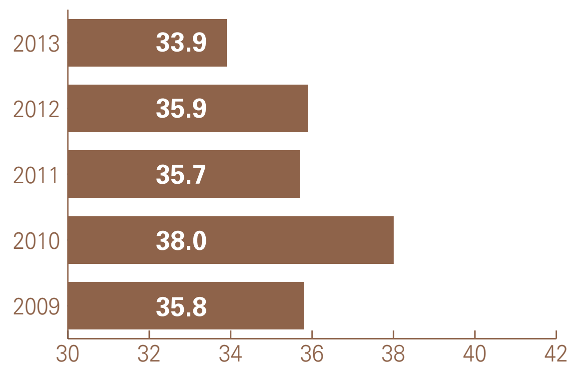
While the majority of United States water utilities continue to experience declining consumption, Louisville Water is firmly poised to address this challenge with a focus on regionalism, other sources of revenue growth, internal and external efficiencies and synergies, adjusting our budget and long-range plans.

2013 Water Revenue



Total Consumption

(in billion gallons)



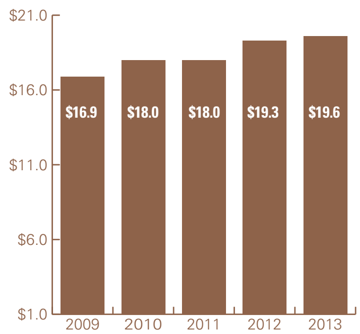
Sale of Water Revenue Analysis

Louisville Water Company

	number of customers at December 31 2013	2012	consumption - ytd (1,000) gallons 2013	2012	revenue - ytd (in 000s) 2013	2012
Residential	243,187	242,007	13,227,765	14,067,469	$ 62,046	$ 62,269
Commercial	22,514	22,462	12,266,561	13,216,325	43,661	44,641
Industrial	330	307	3,613,971	3,157,508	9,522	8,177
Irrigation	12,159	11,512	1,756,470	2,334,456	8,695	10,436
Fire Services	4,255	4,202	30,630	33,452	2,616	2,523
Public Fire Hydrants	23,841	23,792	-	-	11,603	11,154
Metro Govt	635	644	1,188,173	1,299,109	3,834	4,129
Wholesale	6	6	1,814,687	1,825,359	3,719	3,558
GRAND TOTALS	306,927	304,932	33,898,257	35,933,678	$145,696	$146,887

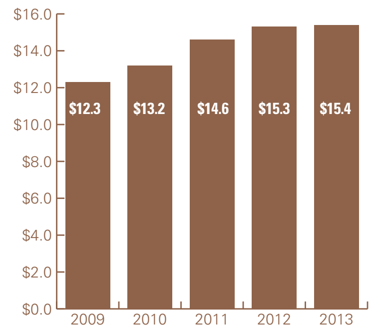
Dividends Declared

(in millions)



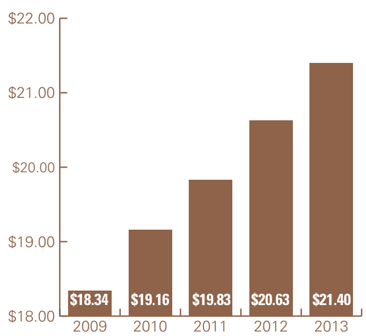
Water & Fire Service Provided in Lieu of Taxes

(in millions)



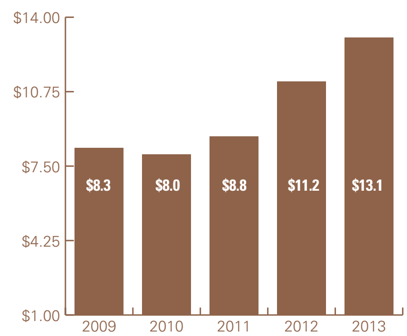
Average Residential Monthly Water Bill

based upon median usage of 5,000 gallons per month



Other Operating Revenue

(in millions)



Operations

(amount in millions of gallons)

	2009	2010	2011	2012	2013
Water Delivered to Mains (Net System Delivery)	44,476	46,234	44,036	43,676	42,281
Average Daily Pumpage	124	128	122	121	116
Maximum Daily Pumpage	157	173	188	185	153
Percent of Water Metered	82%	83%	82%	83%	81%
Average Residential Monthly Water Bill*	$18.34	$19.16	$19.83	$20.63	$21.40

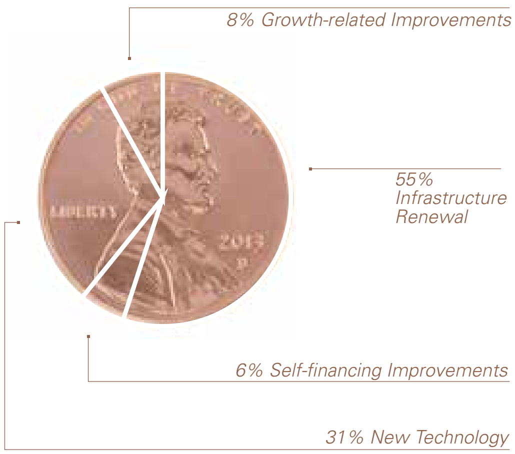
**based upon median usage of 5,000 gallons per month*

Historical Review

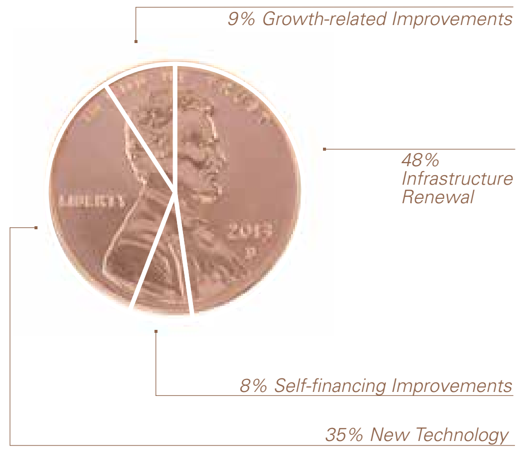
(000s)

	2009	2010	2011	2012	2013
Operating Revenues	$ 136,224	$ 148,366	$ 148,193	$ 158,047	$ 158,824
Total Operating Expenses	$ 94,266	$ 99,455	$ 105,441	$ 109,328	$ 109,926
Net Non-operating Income (Expenses)	$ (4,542)	$ (7,403)	$ (7,933)	$ (6,990)	$ (8,052)
Net Income before distributions, contributions and extraordinary items	$ 37,416	$ 41,508	$ 34,819	$ 41,728	$ 40,846

2013 Capital Improvement Plan

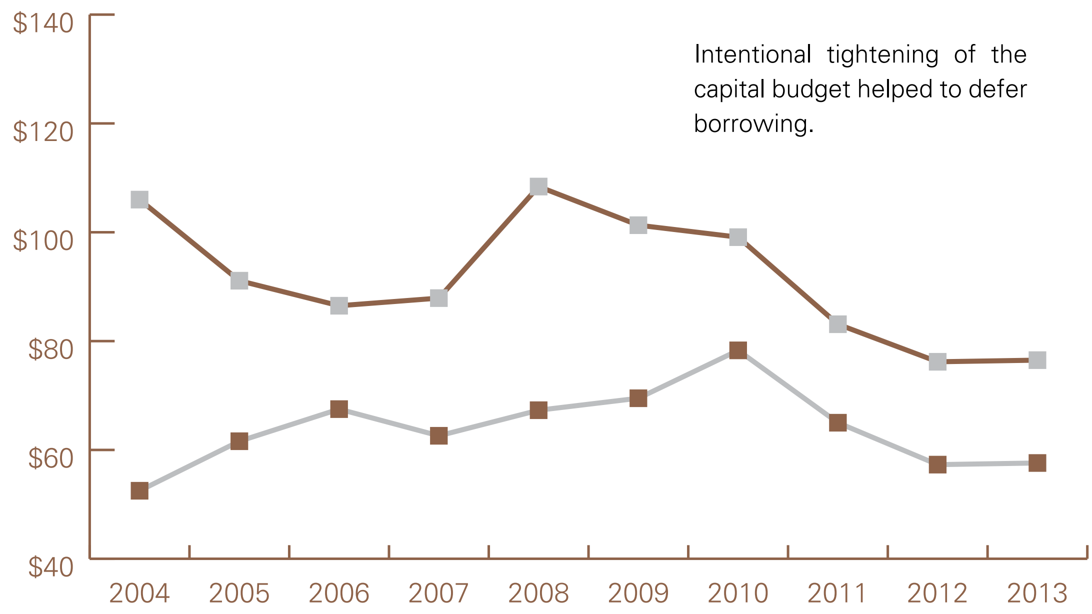


2014 Capital Improvement Plan

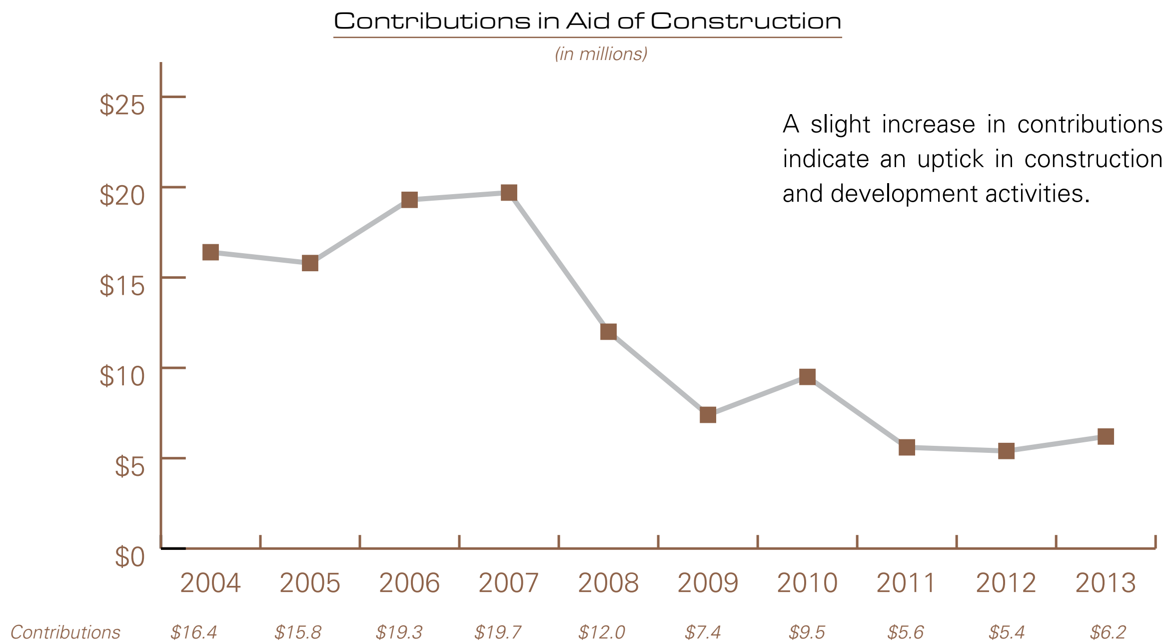


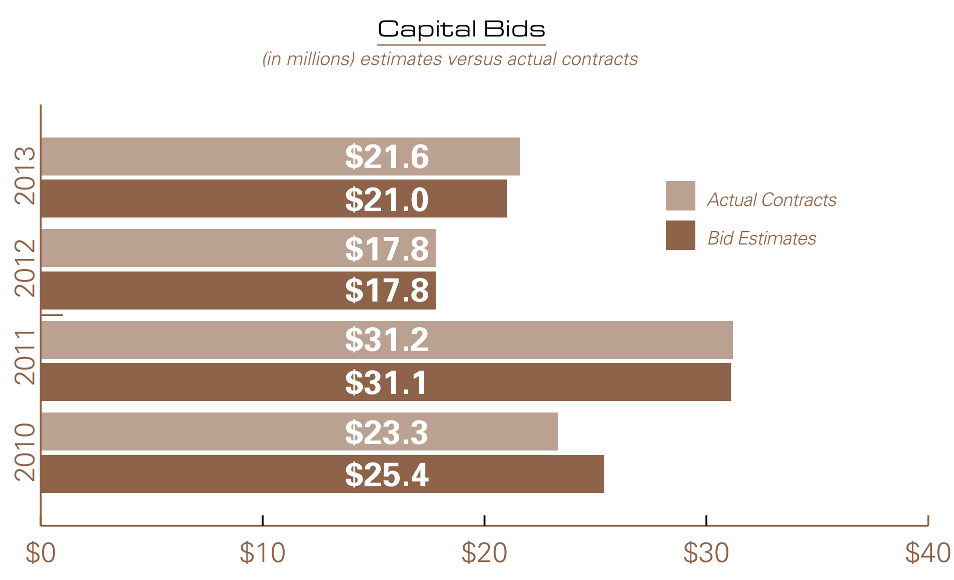
Total Capital Programs and Expenditures

(in millions)



Capital Programs	$106.0	$91.1	$86.5	$87.9	$108.4	$101.3	$99.1	$83.1	$76.2	$76.6
Expenditures	$52.5	$61.6	$67.5	$62.6	$67.3	$69.5	$78.3	$65.0	$57.3	$57.6


Contributions in Aid of Construction
(in millions)
$25
$20
$15
$10
$5
$0
A slight increase in contributions indicate an uptick in construction and development activities.
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Contributions
$16.4
$15.8
$19.3
$19.7
$12.0
$7.4
$9.5
$5.6
$5.4
$6.2


Capital Bids
(in millions) estimates versus actual contracts
2013
$21.6
$21.0
2012
$17.8
$17.8
2011
$31.2
$31.1
2010
$23.3
$25.4
Actual Contracts
Bid Estimates
$0
$10
$20
$30
$40

Louisville Water's customer base includes Louisville Metro/Jefferson County and parts of Bullitt, Nelson, Oldham, Shelby and Spencer Counties. The company has wholesale contracts with Hardin County Water District 1, Hardin County Water District No. 2, Lebanon Junction, Mount Washington, North Nelson Water District, North Shelby Water Company, Taylorsville and West Shelby Water District.

Louisville Water operates two treatment plants: the Crescent Hill Filtration Plant has a capacity of 180 million gallons per day, and the B.E. Payne Water Treatment Plant has a capacity of 60 million gallons per day. Louisville Water draws water directly from the Ohio River at the Crescent Hill Plant and in the aquifer through a riverbank filtration system at the B.E. Payne Plant.

Average Daily Delivery	*116 million gallons*
Total Miles of Pipe	*4,153 miles*
Fire Hydrants	*23,841*
Valves	*52,301*
Water Main Breaks	*589*

Louisville Water has a goal of reducing water main-break frequency to 15 breaks per 100 miles of pipe per year by 2017. The main-break frequency for 2013 was 14.2. The average for the last five years (2009-2013) is 15.5.

Board of Water Works
Louisville Water Company
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Louisville Water Company (the "Company"), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Water Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 23 through 31 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisville Water Company's financial statements. The supplemental schedules of investments, bond issues, bond indebtedness and annual debt service requirements, and operation and maintenance expenses and taxes are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules of investments, bond issues, bond indebtedness and annual debt service requirements, and operation and maintenance expenses and taxes are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP
Louisville, Kentucky
March 17, 2014

Louisville Water Company

December 31, 2013 and 2012

The following discussion and analysis of Louisville Water Company's (the "Company" or "Louisville Water") financial performance provides an overview of the Company's financial activities for the fiscal year ended December 31, 2013, as compared with the prior year.

Overview of the Financial Statements

This annual financial report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplemental Information. The Financial Statements also include notes that explain in more detail some of the information in the Financial Statements. The statements are followed by a section of Supplemental Information that further explains and supports the information in the Financial Statements. The Financial Statements of the Company report information about the Company using accounting methods similar to those used by private-sector water utility companies, except for the reporting of contributions in aid of construction, equity capital and retained earnings. For financial reporting purposes, the Company is considered a Special-purpose Government Engaged Only in Business-type Activities. These statements offer short- and long-term financial information about its activities.

The Statement of Net Position includes all of the Company's assets and liabilities, and it provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). It also provides the basis for evaluating the capital structure of the Company and assessing the liquidity and financial flexibility of the Company.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Company's operations in meeting financial objectives over the past year and can be used to determine whether the Company has successfully recovered all of its costs through its water rates and other charges, has earned a profit, and has maintained credit-worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Company's cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. The statement provides information on the sources and uses of cash and the changes in cash balances during the year.

Summary of 2013 Performance

Louisville Water experienced a challenging year in 2013. While customers (services) and miles of main have increased, Louisville Water experienced the lowest total water consumption since 1969. Total consumption of 33.9 billion gallons was under budget by 7.1% and under prior year actual by 5.7% for 2013. The entire industry is experiencing changes in consumption patterns related to the recovering economy, low-flow plumbing fixtures and a general conservation of resources. In 2013, the Company reduced the average consumption used for residential customers from 6,000 gallons to 5,000 gallons per month when describing rate increases and reduced the budgeted level of consumption by 4.7% in 2014. With this unfavorable variance to budget in water revenue, a focused effort was required to reduce operating expenses without sacrificing our commitment to a safe, reliable water supply and still meeting our obligations to bondholders and our shareholder, Louisville Metro Government ("Louisville Metro"). The Company also focused on other sources of revenue generation by continuing contracts with Hardin County Water District No.1 and River Ridge to operate the water plants for Fort Knox and River Ridge, and by executing contracts with the City of Lebanon Junction and Hardin County No. 2 for additional wholesale water sales beginning in 2014 and 2016, respectively. The company also sold real property and property interests, when appropriate and declared as surplus, to generate income. Overall, while managing through the lower consumption patterns, year-end net income before distributions and contributions totaled $40.8 million and resulted in a return for our shareholder of 8.7%. Louisville Water provided a dividend of $19.6 million and free water and fire protection of $15.4 million for a total shareholder value of $35.0 million. Louisville Water continues to provide safe, reliable water at reasonable rates to our customers and a competitive return to our shareholder, Louisville Metro. In December 2009, Louisville Water was upgraded to AAA by Standard and Poor's and recalibrated to Aaa by Moody's in May of 2010. The Moody's rating was affirmed in June of 2011 and the Standard and Poor's on March 1, 2013.

Financial Highlights

- Total Net Position increased by $27,368,502 or 3.3%, primarily due to increases in Utility Plant due to investment in the water system and a decrease in liabilities due to a large principal bond payment in 2013.
- Operating Revenues increased by $777,416 or 0.5%, due to a 3.75% rate increase January 1, 2013, and contract operations for water plants, home warranty services and other utilities for sewer billing services. Water sales in 2013 of 33.9 billion gallons were 2 billion gallons or 5.7% below 2012 sales of 35.9 billion gallons.
- Operating Expenses increased by $597,551 or 0.5%, due to increases in Depreciation Expense and Water and Fire Service Provided in Lieu of Taxes.
- Net Non-Operating Expenses increased by $1,062,174 or 15.2%, primarily due to an arbitrage refund from the Treasury from a 1992 arbitrage calculation in 2012.
- Net Income before distributions and contributions decreased by $882,309 or 2.1% primarily due to increased non-operating expenses.
- Dividends Paid and Payable increased by $306,392 or 1.6%, due to three-year averaging of adjusted net income.

Statement of Net Position

Total Net Position increased by $27.4 million or 3.3% in 2013 (see Figure 1). The largest portion of Net Position is Net Utility Plant, which increased by $21.4 million in 2013 through capital improvements. The capital improvements were funded by the 2009 bond issue, cash generated from operations and Contributions in Aid of Construction from developers, customers, and governmental agencies. Noncurrent Assets decreased by $19.7 million, primarily due to cash used from reserves to fund capital improvements. Current Assets increased by $7.4 million, primarily due to an increase in cash and temporary investments. Long-term Liabilities decreased by $18.6 million resulting from bond principal payments due in 2013. Long-term Liabilities are discussed in more detail in the section titled Debt Administration.

FIGURE 1—Condensed Statement of Net Position

	2013	2012	Difference	Percent	2011
Current Assets	$ 72,438,969	$ 65,061,610	$ 7,377,359	11.3%	$ 67,205,131
Noncurrent Assets	71,920,918	91,597,243	(19,676,325)	(21.5%)	100,620,419
Loss on Refunding of Debt	2,689,792	3,161,286	(471,494)	(14.9%)	3,518,454
Net Utility Plant	999,753,283	978,322,022	21,431,261	2.2%	956,045,464
Total Assets and Deferred Outflows	1,146,802,962	1,138,142,161	8,660,801	0.8%	1,127,389,468
Current Liabilities	51,866,528	51,988,376	(121,848)	(0.2%)	52,657,394
Long-term Liabilities	239,315,834	257,901,687	(18,585,853)	(7.2%)	274,247,631
Total Liabilities	291,182,362	309,890,063	(18,707,701)	(6.0%)	326,905,025
Total Net Position	$ 855,620,600	$ 828,252,098	$ 27,368,502	3.3%	$ 800,484,443

2012 Compared to 2011

Total Net Position increased by $27.8 million or 3.5% in 2012 compared to 2011. This was primarily due to the increase in Net Utility Plant due to capital investment in our infrastructure. The largest portion of Net Position is Net Utility Plant, which increased by $22.3 million in 2012 through capital improvements.

Statement of Revenues, Expenses and Changes in Net Position

Operating Revenues increased by $777 thousand or 0.5% in 2013 (see Figure 2). Total water consumption decreased by 2 billion gallons or 5.7% in 2013. Water rates increased 3.75% January 1, 2013. Despite the decline in consumption, the water-rate increase coupled with an increase in other operating revenue related to contract operations resulted in a slight increase in operating revenues.

Operating Expenses increased by $598 thousand or 0.5% in 2013. The key components of operating expenses are: Operation and Maintenance Expenses, Depreciation and Amortization, Taxes and Water Service Provided in Lieu of Taxes, and Loss on Disposition of Assets. Operation and Maintenance Expenses decreased $241 thousand, due to lower power and chemicals related to water sales, and delay in hiring open positions to reduce expenses. Depreciation and Amortization Expense increased by $1.5 million due to increased investments in utility plant. Taxes and Water and Fire Service Provided in Lieu of Taxes increased by $124 thousand due to increased water rates, consumption and fire hydrant charges.

Net Non-Operating Expenses (non-operating expenses less non-operating income) increased by $1.1 million or 15.2% in 2013. This is primarily related to an arbitrage refund from a prior bond rebate calculation refunded from the Treasury in 2012.

Net Income before Distributions and Contributions decreased by $882 thousand or 2.1% in 2013, primarily due to the arbitrage refund received in 2012. The formula for computing the dividend is established as a covenant in the Series 2009 Bond Resolution (the Master Bond Resolution) and is 50% of net income after certain stated deductions. A three-year averaging is used to adjust for the volatility in net income resulting from the changing weather. Dividends Paid and Payable increased by $306 thousand or 1.6%, from $19.3 million to $19.6 million, due to the averaging formula.

Contributions in Aid of Construction are composed of: pipeline contributions from developers for water main extensions and from governmental agencies for water main relocations; service installation fees from customers; apportionment warrant fees and tapping fees from customers to extend water service to unserved areas; and system development charges from customers for growth-related expansion. The level of capital contributions varies from year to year and is affected by economic cycles. These types of projects are fully funded or nearly fully funded by outside entities in advance of construction. Contributions in Aid of Construction increased by $790 thousand or 14.7% from the previous year, due to increased developer activity in 2013.

FIGURE 2—Condensed Statement of Revenues, Expenses and Changes in Net Position

	2013	2012	Difference	Percent	2011
Operating Revenues	$ 158,824,309	$ 158,046,893	$ 777,416	0.5%	$ 148,193,236
Operating Expenses	109,925,952	109,328,401	597,551	0.5%	105,441,052
Net Operating Revenue	48,898,357	48,718,492	179,865	0.4%	42,752,184
Net Non-Operating Expenses	8,052,230	6,990,056	1,062,174	15.2%	7,932,803
Net Income before Distributions and Contributions	40,846,127	41,728,436	(882,309)	(2.1%)	34,819,381
Dividends Paid and Payable	19,649,112	19,342,720	306,392	1.6%	18,009,198
Contributions in Aid of Construction	6,171,487	5,381,939	789,548	14.7%	5,614,348
Increase in Net Position	27,368,502	27,767,655	(399,153)	(1.4%)	22,424,531
Net Position, beginning of year	828,252,098	800,484,443	27,767,655	3.5%	778,059,912
Net Position, end of year	$ 855,620,600	$ 828,252,098	$ 27,368,502	3.3%	$ 800,484,443

2012 Compared to 2011

Operating Revenues increased by $9.9 million or 6.6% in 2012 compared to 2011. Total water consumption increased by 278 million gallons or 0.8% in 2012. Operating Expenses increased by $3.9 million or 3.7% in 2012. Net Non-Operating Expenses decreased by $943 thousand or 11.9% in 2012, due to an arbitrage refund from a prior bond rebate refunded in 2012. Net Income before Distributions and Contributions increased by $6.9 million, or 19.8%, and the dividend to our shareholder Louisville Metro increased by $1.3 million, or 7.4%, in 2012.

Statement of Cash Flows

Cash and Temporary Investments at the end of 2013 were $708 thousand or 2.1% higher than at the end of 2012 (see Figure 3). Cash from Operating Activities decreased by $5.6 million, due to an increase in cash paid to suppliers and others. Cash from Capital and Related Financing Activities decreased by $3.2 million related to the 2012 investment in the Louisville Water Tower. Cash from Investing Activities increased by $5.1 million, due to the transfer of reserves for use in the capital improvement program.

FIGURE 3—Condensed Statement of Cash Flows

	2013	2012	Difference	Percent	2011
Cash from Operating Activities	$ 74,191,737	$ 79,777,162	$ (5,585,425)	(7.0%)	$ 70,483,439
Cash from Non-Capital Financing Activities	(19,772,262)	(19,219,570)	(552,692)	(2.9%)	(18,081,171)
Cash from Capital and Related Financing Activities	(75,216,490)	(78,427,278)	3,210,788	4.1%	(89,967,014)
Cash from Investing Activities	21,504,610	16,410,222	5,094,388	31.0%	59,046,842
Change in Cash and Temporary Investments	707,595	(1,459,464)	2,167,059	148.5%	21,482,096
Cash and Temporary Investments, Beginning of Year	34,126,108	35,585,572	(1,459,464)	(4.1%)	14,103,476
Cash and Temporary Investments, End of Year	$ 34,833,703	$ 34,126,108	$ 707,595	2.1%	$ 35,585,572

In addition to the amounts held in Cash and Temporary Investments, Louisville Water also holds funds for capital improvements in reserves totaling $38.6 million reported as part of Restricted, expendable reserves in Noncurrent Assets on the Statement of Net Position and described in Note 6.

2012 Compared to 2011

Cash and Temporary Investments at the end of 2012 were $34.1 million, which was 4.1% lower than at the end of 2011. Cash from Operating Activities increased by $9.3 million, due to an increase in cash to customers and a decrease in cash paid to suppliers and others.

Capital Assets

Louisville Water uses a five-year Capital Improvement Program ("CIP") that is updated annually. Every five years, a twenty-year facility plan is prepared by our Consulting Engineer. The most recent Facilities Plan was prepared by Camp, Dresser and McKee in 2010. Development of the CIP is based on the Company's current Facilities Plan and recommendations from the biannual inspection of facilities. The CIP also identifies anticipated capital expenditures for a total of ten years. The Company's current Facilities Plan covers the years from 2012 through 2030. The Company expects to invest $393.3 million in improvements during 2014-2018. The key capital projects for 2014 are infrastructure renewal, new technology and facilities (including replacement of customer billing system and automated meter reading), improvements to storage and boosted pressure systems, and transmission- and distribution-system improvements.

Debt Administration

As of December 31, 2013, there is no principal outstanding for the Series 2001 Bonds, $69.6 million of principal outstanding for the Series 2006 Bonds, $84.1 million of principal outstanding for the Series 2009A Bonds, $86.7 million of principal outstanding for the Series 2009B Bonds and $1.8 million of principal outstanding for the ARRA loan, for a total of $242.2 million (Note 9). As shown in Figure 4, the debt service coverage of 2.03 times in 2013 is favorable to the statutory and bond resolution limits of 1.3 times. The Series 2001 Bonds were called in March of 2013. The Series 2006 Bonds have a combination of insured and uninsured maturities, are callable beginning in 2016, and carry ratings of Aaa from Moody's and ratings of AAA from Standard & Poor's. The Series 2009A and 2009B Bonds are not insured, are callable beginning in 2019, and carry ratings of Aaa from Moody's and ratings of AAA from Standard & Poor's. The Company was upgraded in December 2009 to AAA from Standard & Poor's and affirmed in March 2013, and recalibrated to Aaa from Moody's in May of 2010 and affirmed in June 2011.

FIGURE 4—Debt Service Coverage

	2013	2012	Difference	Percent	2011
Income Available for Debt Service	$ 52,692,085	$ 53,368,852	$ (676,767)	(1.3%)	$ 45,872,466
Current Aggregate Net DebtService	25,977,730	27,578,535	(1,600,805)	(5.8%)	21,534,075
Coverage Times	2.03	1.94	0.09	4.6%	2.13

The Company's debt rating is among the highest in the United States for water utility revenue bonds.

Economic Factors and Next Year's Budgets and Rates

Management believes that the 2014 Budget adequately addresses all revenue requirements. Water rates increased for retail water service by 3.69% on January 1, 2014. Water rates for wholesale customers are recommended to increase on July 1, 2014. Rate changes for three wholesale customers are subject to approval by the Kentucky Public Service Commission.

Management believes that the most challenging economic issues facing Louisville Water in 2014 will be the slow recovery of the economy, and the continued decrease in water consumption due to low-flow plumbing fixtures and conservation. Management plans to pursue strategies to assure steady top-line revenue growth and profitability through: increasing water sales within the boundaries of existing infrastructure; pursuing traditional growth opportunities for wholesale and retail service; pursuing non-traditional growth opportunities through mergers, acquisitions, joint ventures and management contracts; and pursuing new or expanded related business opportunities that capitalize on our existing competencies, expertise and strengths. Management is also pursuing shared services through a Comprehensive Interlocal Agreement ("ILA") with the Metropolitan Sewer District ("MSD") to provide synergies and reduced expenses while maintaining our commitment to provide a safe, reliable water supply to the customers we serve.

Computation of Stockholder's Equity

Stockholder's equity for Louisville Water is no longer published in the audited financial statements following adoption of GASB 34 in 2002. Using the common stock, retained earnings, and total equity capital reported in the 2001 audited financial statements and using Income before Distributions and Contributions less Dividends Paid and Payable from audited financial statements for subsequent years, Figure 5 below describes management's computation of stockholder's equity for the years ended December 31, 2013, 2012 and 2011.

Figure 5—Computation of Stockholder's Equity

	2013	2012	Difference	Percent	2011
Total equity capital, Beginning of Year	$ 489,835,729	$ 467,450,013	$ 22,385,716	4.8%	$ 450,639,830
Plus Income before Distributions and Contributions	40,846,127	41,728,436	(882,309)	-2.1%	34,819,381
Less Dividends Paid and Payable	19,649,112	19,342,720	306,392	1.6%	18,009,198
Total Equity Capital, End of Year	511,032,744	489,835,729	21,197,015	4.3%	467,450,013
Less Cumulative Deposits to Infrastructure Replacement Reserve	42,053,333	42,053,333	-	-%	42,053,333
Stockholders' Equity Eligible for Return Computation	$ 468,979,411	$ 447,782,396	$ 21,197,015	4.7%	$ 425,396,680

The adjusted net income for 2013 for dividend and return on equity computation was $40,846,127. The return on equity earned by Louisville Water in 2013 was 8.7%.

Comparative Analysis of Financial Results

To optimize long-term financial viability, Louisville Water management plans for and monitors five groups of financial metrics: liquidity, capitalization, coverage, profitability and dividend payout. Figure 6 below describes management's computation of certain financial ratios within each of these groups of metrics.

FIGURE 6—Comparative Analysis of Financial Results

Liquidity	*Access Readily Available Assets to Meet Near-Term Obligations*	*2012*	*2013*	*2014 Budget*	*Target*
Days of Funded Operations	(Cash + Unrestricted Fund Reserves) / (O&M Expense / 365)	518	421	237	>200
Days of Cash Funded Operations	Cash / (O&M Expense / 365)	195	200	158	>60

Capitalization	*Reliance on Debt Financing for Capital Investments*	*2012*	*2013*	*2014 Budget*	*Target*
Long-Term Debt to Net Utility Plant	Long-Term Debt / Net Utility Plant	26.60%	24.22%	22.21%	<35%
Debt to Capitalization	Long-Term Debt / (Long-Term Debt + Unrestricted Stock Equity)	36.76%	34.05%	31.69%	

Coverage	*Capacity to Make Debt Service Payments*	*2012*	*2013*	*2014 Budget*	*Target*
Debt Service Coverage	EBIT / Debt Service EBIT/Maximum Aggregate Debt Service	Current 1.94 Max Year 1.94	2.03	1.93	Current Target >2.0 Min. >1.30
Debt Service Safety Margin	(O&M Expense + Debt Service) / (Operating Revenue + Non-Operating Revenue)	43.09%	44.00%	43.13%	>30%
EBITDA / Interest Expense	EBITDA / Interest Expense	8.36x	8.84x	8.81x	>5.0x

Profitability	*Profitability of the Company*	*2012*	*2013*	*2014 Budget*	*Target*
Return on Equity	(Net Income - IRR - Construction Interest) / Stockholder Equity Eligible for Return	9.32%	8.71%	7.84%	9.8%
Return on Assets	(Net Income - IRR - Construction Interest) / Total Assets	3.68%	3.57%	3.23%	
Return on Net Utility Plant	(Net Income - IRR - Construction Interest) / Net Utility Plant	4.27%	4.09%	3.75%	
Net Profit Margin	(Net Income - IRR - Construction Interest) / Operating Revenue	26.40%	25.72%	22.96%	
Operating Margin	EBITDA / Operating Revenue	59.53%	59.88%	58.41%	

Dividend Payout	*Measurement of Distribution of Profit as a Dividend*	*2012*	*2013*	*2014 Budget*
Dividend Payout	Dividends Declared / (Net Income - IRR - Construction Interest)	46.35%	48.11%	52.98%
Total Transfers	(Water in Lieu of Taxes + Dividends) / Operating Revenue	21.94%	22.10%	21.95%
Dividend Yield	Dividends Declared / Stockholder Equity Eligible for Return	4.32%	4.19%	4.15%

Contacting the Company's Financial Management

This financial report is designed to provide our citizens, customers, creditors and stockholder with a general overview of the Company's finances and to show the Company's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's Office at Louisville Water Company, 550 South Third Street, Louisville, KY, 40202.

December 31, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash and temporary investments	$ 34,833,703	$ 34,126,108
Accounts receivable, net	22,963,540	18,390,386
Contracts receivable, current portion	608,317	549,301
Notes receivable, current portion	664,400	455,300
Materials and supplies	7,565,214	6,783,281
Restricted, expendable bond service accounts	3,752,906	2,657,400
Other current assets	1,679,151	1,654,193
Accrued interest receivable	371,738	445,641
Total current assets	72,438,969	65,061,610
Utility plant, net of accumulated depreciation	999,753,283	978,322,022
Noncurrent assets		
Non-utility property, net	2,785,726	3,053,397
Unamortized bond issuance costs	1,480,587	1,597,411
Contracts receivable	1,439,539	1,606,207
Note receivable	8,617,500	9,281,900
Restricted, expendable reserves	51,732,892	72,160,976
Preliminary engineering charges	174,883	258,805
Prepaid regulatory assets	5,689,791	3,638,547
Total noncurrent assets	71,920,918	91,597,243
Total Assets	1,144,113,170	1,134,980,875
Deferred Outflow of Resources		
Unamortized loss on bond refundings	2,689,792	3,161,286
Total Assets and Deferred Outflow of Resources	**$ 1,146,802,962**	**$ 1,138,142,161**

continued

December 31, 2013 and 2012

	2013	2012
LIABILITIES		
Current liabilities		
Accounts payable	$ 8,849,228	$ 10,694,750
Accounts payable, sewer collections	15,584,176	13,359,455
Customer deposits and advances	5,348,063	4,076,222
Tax collections payable	510,868	599,591
Accrued interest payable	1,446,016	1,538,375
Dividend payable	-	123,150
Contracts payable, retainage percentage	715,255	511,304
Accrued payroll	473,620	408,739
Accrued vacation and sick leave	1,789,409	1,808,442
Insurance reserve	1,187,845	2,167,916
Bonds and notes payable, current portion	15,962,048	16,700,432
Total current liabilities	51,866,528	51,988,376
Long-term liabilities		
Customer advances for construction	835,124	1,017,142
Unamortized debt premiums and discounts	12,284,359	13,316,146
Bonds and notes payable, less current portion	226,196,351	243,568,399
Total long-term liabilities	239,315,834	257,901,687
Total Liabilities	291,182,362	309,890,063
NET POSITION		
Unrestricted	42,539,920	35,380,531
Net investment in capital assets	757,594,882	718,053,191
Restricted, expendable	55,485,798	74,818,376
Total Net Position	855,620,600	828,252,098
Total Liabilities and Net Position	**$ 1,146,802,962**	**$ 1,138,142,161**

see accompanying notes to financial statements

Years ended December 31, 2013 and 2012

	2013	2012
Revenues		
Operating revenues	$ 158,824,309	$ 158,046,893
Operating expenses		
Operation and maintenance expenses	63,713,823	63,955,142
Depreciation	29,215,093	27,807,457
Amortization	471,614	372,210
Water and fire service provided in lieu of taxes	15,454,532	15,330,496
Loss from sale and salvage of retired assets	1,070,890	1,863,096
Total operating expenses	109,925,952	109,328,401
Net operating revenue	48,898,357	48,718,492
Non-operating revenue (expense)		
Interest income	1,331,227	2,787,266
Interest expense	(9,383,457)	(9,777,322)
Net non-operating expense	(8,052,230)	(6,990,056)
Income before distributions and contributions	40,846,127	41,728,436
Distributions and contributions		
Dividends paid and payable	(19,649,112)	(19,342,720)
Contributions in aid of construction	6,171,487	5,381,939
Net distributions and contributions	(13,477,625)	(13,960,781)
Increase in net position	27,368,502	27,767,655
Net position, beginning of year	828,252,098	800,484,443
Net position, end of year	**$ 855,620,600**	**$ 828,252,098**

see accompanying notes to financial statements

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Cash received from customers	$ 143,846,854	$ 143,024,291
Cash paid to suppliers and others	(43,119,215)	(36,986,975)
Cash paid to employees for services	(26,535,902)	(26,260,154)
Net cash from operating activities	74,191,737	79,777,162
Cash flows from noncapital financing activities		
Dividends paid to stockholder	(19,772,262)	(19,219,570)
Cash flows from capital and related financing activities		
Acquisition and construction of utility plant	(53,174,127)	(53,473,891)
Acquisition of non-utility property	(86,037)	(3,075,167)
Proceeds from ARRA loan	-	104,330
Contributions in aid of construction	6,171,487	5,381,939
Repayment of customer advances for construction	(182,018)	(439,957)
Preliminary engineering charges	83,922	(158,035)
Principal paid	(18,110,432)	(16,386,668)
Interest paid	(9,919,285)	(10,379,829)
Net cash from capital and related financing activities	(75,216,490)	(78,427,278)
Cash flows from investing activities		
Reserved funds	20,428,084	13,709,166
Restricted funds	(1,095,507)	(19,586)
Contracts receivable	107,652	133,197
Contracts payable, retainage percentage	203,951	(488,585)
Notes receivable	455,300	262,800
Interest received	1,405,130	2,813,230
Net cash from investing activities	21,504,610	16,410,222
Net change in cash and temporary investments	707,595	(1,459,464)
Cash and temporary investments, beginning of year	34,126,108	35,585,572
Cash and cash temporary investments, end of year	**$ 34,833,703**	**$ 34,126,108**

continued

Years ended December 31, 2013 and 2012

	2013	2012
Reconciliation of net operating revenue to net cash from operating activities		
Net operating revenue	$48,898,357	$48,718,492
Adjustments to reconcile net operating revenue to net cash from operating activities		
Depreciation	30,554,070	29,216,331
Amortization	471,614	372,210
Loss from sale and salvage of retired assets	1,070,890	1,863,096
Increase (decrease) in cash due to changes in current assets and liabilities		
Accounts receivable	(4,573,154)	130,527
Materials and supplies	(781,932)	234,671
Other current assets	(24,958)	558,221
Prepaid regulatory assets	(2,051,244)	(751,418)
Accounts payable	(1,845,522)	(1,561,775)
Accounts payable, sewer collections	2,224,721	238,692
Customer deposits	1,271,841	92,944
Tax collections payable	(88,723)	25,982
Accrued vacation and sick leave	(19,033)	450,904
Accrued payroll	64,881	71,225
Insurance reserve	(980,071)	117,060
Net cash from operating activities	**$74,191,737**	**$79,777,162**

see accompanying notes to financial statements

NOTE 1—Significant Accounting Policies

Description of the Business: Louisville Water Company (the "Company") is a provider of water and related services to residential, commercial, industrial, fire and wholesale consumers in Jefferson, Bullitt, Oldham, Shelby, Nelson, Spencer and Hardin Counties. The Company is wholly owned by Louisville Metro Government ("Louisville Metro") and therefore follows Governmental Accounting Standards. Throughout its 160-year history, the Company has engaged the communities it serves through philanthropic and charitable outreach activities, directly contributing to improving the health and well-being of those communities. In 2013, the Company further demonstrated its commitment to the community by founding a nonprofit organization, the Louisville Water Foundation (the "Foundation"). The Foundation's mission is to improve the health and well-being of the communities it serves and around the world by providing water assistance and water education. The creation of a separate, nonprofit entity allows additional financial and/or in-kind support to flow into the Foundation from a broad base of public and private sources. The related financial activity of the Foundation is not consolidated with the financial activity of the Company.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). The Company follows GASB pronouncements as codified under GASB 62, including electing to report as a regulated operation. The financial statements include the accounts of the Company and have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Company is an Enterprise fund and reports as a Business Type Activity ("BTA"). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Method of Accounting: The Company's accounting policies conform to accounting principles generally accepted in the United States of America for water utilities. Although the Company is not subject to regulation, the accounts are maintained in accordance with the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners, except with respect to the treatment of gains and losses from the retirement or disposition of utility plant. The Company recognizes gain or loss, including cost of removal, upon the retirement or disposition of utility plant rather than the transfer of cost to accumulated depreciation, as provided by the National Association of Regulatory Utility Commissioners. Due to the election as a regulated operation under GASB 62, to meet industry accounting standards and follow transactional intent, the Company uses, as applicable, ASC 980, Regulated Accounting.

Net Position: The Company classifies resources for accounting and reporting purposes into the following net position categories:

- *Net Investment in Capital Assets:*
  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- *Restricted: Restricted net position includes:*
  Nonexpendable—Net position subject to externally imposed stipulations that they be maintained permanently by the Company.

  Expendable—Net position whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.

- *Unrestricted:*
  Net position whose use by the Company is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Water Works or may otherwise be limited by contractual agreements with outside parties.

Taxes: The Company, by virtue of its ownership by Louisville Metro, is exempt from taxation by federal, state and local taxing authorities, however, the Company is liable for certain other taxes and provides water and fire services in lieu of taxes to Louisville Metro. Tax expense, which includes water and fire service provided in lieu of taxes for 2013 and 2012, was $15,454,532 and $15,330,496, respectively.

Union Employees: The Company has numerous employees who are covered by a collective bargaining agreement. At December 31, 2013 and 2012, approximately 44% and 47% of the Company's full-time employees were covered by a collective bargaining agreement. The existing 5-year collective bargaining agreement expires February 29, 2016.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statements of Cash Flows: For purposes of the statements of cash flows, the Company considers all unrestricted highly liquid investments purchased with an original maturity of three months or less to be temporary investments. Significant noncash transactions excluded from the statement of cash flows included accrued utility plant acquisitions of $9,077,557 and $4,754,165 for the years ended December 31, 2013 and 2012, respectively.

Materials and Supplies: Materials and supplies inventories are stated at the average cost.

Utility Plant: Utility plant is stated at cost of acquisition or construction, including certain indirect costs. Direct purchases with a unit cost of $2,500 or more and a useful life of greater than one year are capitalized. The Company applies the straight-line method of depreciation to the estimated useful lives of the various classes of depreciable property. The estimated useful lives of some significant asset categories are as follows:

Buildings	50 to 100 years
Pipelines	65 to 100 years
Fire hydrants	50 years
Services	40 years
Meters	15 years
Equipment	5 to 10 years
Trucks and autos	5 years

Depreciation expense for 2013 was $30,554,070 of which $1,338,977 was allocated to other operating expenses. Depreciation expense for 2012 was $29,216,331 of which $1,408,874 was allocated to other operating expenses.

Non-utility Property: Non-utility property is stated at cost of acquisition or construction, including certain indirect costs. Direct purchases with a unit cost of $2,500 or more and a useful life of greater than one year are capitalized. The Company applies the straight-line method of depreciation to the estimated useful lives of the various classes of depreciable property. Depreciation expense of non-utility plant was $353,708 and $254,304 for 2013 and 2012, respectively.

Capitalized Interest: The Company follows the practice of capitalizing interest during construction on capital projects that are debt financed. Interest in the amount of $932,493 and $931,731 was capitalized during 2013 and 2012, respectively.

Prepaid Regulatory Assets: The Company is currently depreciating abandoned plant assets of $10,491,433 over five to eight years beginning in 2007. Amounts of $3,220,556 and $1,484,211 were added to the account during 2013 and 2012, respectively. The prepaid regulatory assets, stated net of depreciation, can be found on the statement of net position at $5,689,791 and $3,638,547 for 2013 and 2012, respectively.

Investments: Investments are reported at fair value with gains and losses included in the statements of revenues, expenses and changes in net position. Short-term investments in agency obligations that have a remaining maturity of one year or less at the time of purchase are reported at amortized cost. Gains or losses on dispositions are determined using the specific identification method.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established based on historical collection experience and a review of the current status of existing receivables.

Accrued Vacation and Sick Leave: Employees' vested and accumulated vacation and sick leave is recorded as a liability on the statement of net position. Accrued vacation and sick leave balances were $1,789,409 and $1,808,442 for 2013 and 2012, respectively.

Customer Deposits: The Company has implemented a security deposit policy for all customers applying for residential, commercial or industrial water service who: (i) have not had an account with the Company for three consecutive years; or (ii) have had a previous account in bad debt or bankruptcy status; or (iii) have had a service disconnected due to nonpayment within the last three years of service. The Company refunds the security deposit when: (i) a customer closes the account; or (ii) the customer has paid their bill in a timely manner for three consecutive years. Additionally, the Company charges a security deposit for temporary meters for construction. Total security deposits at December 31, 2013 and 2012 were $3,017,900 and $2,885,280, respectively. The Company also requires customers to make a deposit for the cost of construction of pipelines and special services. Deposits are refundable to the extent the deposit is in excess of the construction cost. Total construction deposits were $2,330,163 and $1,190,942 at December 31, 2013 and 2012, respectively. All Customer deposits are included as customer deposits and advances in current liabilities on the statement of net position.

Customer Advances for Construction: The customer advances for construction accounts reflect the anticipated long-term liability for refunding construction costs based on future new service installations within certain time limits up to 20 years. Once the refund period has expired, any balance is recorded as a contribution in aid of construction in the Company's statements of revenues, expenses and changes in net position. Total customer advances for construction at December 31, 2013 and 2012 were $835,122 and $1,017,142, respectively.

Debt and Bond Related Costs: Debt related policies include the following:

- Bonds payable are recorded at the principal amount outstanding, net of any applicable premium or discount.

- Original issue discounts and premiums on bonds are amortized as a component of interest expense using the straight-line method, which approximates the effective interest method, over the lives of the bonds to which they relate.
- Refunding bonds outstanding, which have been refunded and economically defeased, are not included in long-term debt. The related assets are not included in investments. The loss on refunding, which is the difference between the reacquisition price and the net carrying amount of the old debt, is deferred outflow of resources and amortized as a component of interest expense over the average remaining life of the old debt.
- Bond issue costs are capitalized and amortized over the life of the respective bond issue using the straight-line method, which approximates the effective interest method, pursuant to the election of regulatory operation under GASB 62, as they are deemed recoverable through future rates.

Operating / Non-Operating Revenues and Expenses: Operating Revenues are those revenues that are generated directly from the primary activity of the Company. These revenues are water service and commodity charges, late and other water-related fees, contract operations and service line fees, and compensation for service provided to others. Operating expenses are expenses incurred through the activities of operating and maintaining the Company, including depreciation, water provided in lieu of taxes, and loss on disposition of assets. Non-operating revenues and expenses are comprised of investment and financing earnings and cost.

Revenue: Operating revenue is recognized in the period in which billings are rendered to consumers. The Company does not accrue revenue for water delivered but not billed.

Contributed Capital and Construction Grants: Construction and acquisition of water lines and other facilities and plants are financed, in part, from governmental grants and contributions in aid of construction from property owners and developers. Governmental grants in aid of construction represent the portion of construction cost incurred where paperwork has been submitted to the entity. These amounts are recorded as a receivable and revenues from contributions at the time the documentation is submitted. The revenues from contributions are part of the change in net position.

Restricted and Unrestricted Funds: Restricted funds are reserved for the purpose of bond debt service, funding of capital construction, and debt service reserves. Unrestricted funds, generated from service fees and other operating income, are used to pay operating expenses. When an expense or outlay is incurred for which both restricted and unrestricted funds are available, it is the Company's practice to use revenue from operations to finance construction, then reimburse from restricted funds as needed. Restricted funds can be used to pay operating expenses in the case of an emergency caused by some extraordinary occurrence, so characterized in a Certificate of an Authorized Officer filed with the Trustee, and an insufficiency of moneys to the credit of the Operation Fund to meet such emergency.

Reclassifications: Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation. The reclassifications had no effect on total net position or the change in net position.

Adoption of New Accounting Pronouncements: Adoption of these Statements did not have a material impact on the Company's financial position or results of operations.

- ***GASB Statement No. 61, The Financial Reporting Entity:*** This Statement is designed to improve financial reporting for governmental entities by amending the requirements of *Statements No. 14, The Financial Reporting Entity, and No. 34, Basic Financial Statements - and Management's Discussion and*

Analysis - for State and Local Governments, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.

- ***GASB Statement No. 65, Items Previously Reported as Assets and Liabilities:*** This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

- ***GASB Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62:*** This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, *Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

Recent Accounting Pronouncements: As of December 31, 2013, the GASB has issued the following statements not yet required to be adopted by the Company.

- ***GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25***, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement is intended to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Company's management has not yet determined the effect this statement will have on the Company's financial statements.

- ***GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,*** issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Company's management has not yet determined the effect this statement will have on the Company's financial statements.

- ***GASB Statement No. 69, Government Combinations and Disposals of Government Operations,*** issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Company's management has not yet determined the effect this statement will have on the Company's financial statements.

- ***GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees,*** issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The Company's management has not yet determined the effect this statement will have on the Company's financial statements.

- ***GASB Statement No. 71, Pension Transition For Contributions Made Subsequent To The Measurement Date—An amendment of GASB Statement No. 68,*** issued in November 2013, and effective concurrent with GASB 68. The objective of this Statement is to address an issue regarding application of the transition provisions of *Statement No. 68, Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Company's management has not yet determined the effect this statement will have on the Company's financial statements.

NOTE 2—Accounts Receivable

Accounts receivable as of December 31, 2013 and 2012 include:

	2013	2012
Water	$ 5,949,693	$5,116,510
Sewer	14,347,436	12,161,132
Other	3,379,733	1,891,281
	23,676,862	19,168,923
Allowance for doubtful accounts	(713,322)	(778,537)
	$ 22,963,540	$ 18,390,386

NOTE 3—Notes Receivable

On February 8, 2011, the Board of Water Works approved a resolution to provide a $10,000,000 promissory note to Louisville Metro at a 2% annual interest rate. The promissory note is to be repaid over five years beginning March 15, 2012, with a final balloon payment in the fifth year. Louisville Metro has the option to refinance the remaining balance for one additional five-year term.

NOTE 4—2009 Master Bond Resolution Funds

The Company maintains a 2009 Master Bond Resolution ("Resolution") that documents the legal requirements for the outstanding bonds payable for the 2006 and 2009 bond series. The following accounts and funds are established for bond series unless specifically noted:

Bond Reserve Account: The Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The reserve is invested in repurchase agreements and a government obligation mutual fund and is stated at fair value.

Depreciation Fund: The Resolution requires the Company to make monthly deposits of an amount equal to one-twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are collateralized by pledged assets guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account.

Infrastructure Replacement Reserve Fund: The Resolution provides for the funding of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was $2,000,000 and $2,000,000 for 2013 and 2012, respectively. There were no deposits made during 2013 and 2012. The balance at December 31, 2013, is invested in an account collateralized by pledged assets and stated at fair value.

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on both the Series 2009A and 2009B Bonds and 2006 Bonds outstanding, and one-twelfth of the next maturing principal of those related bonds. The account is invested in government obligation mutual funds and is stated at fair value.

Revenue: The Resolution requires all Revenues received by the Company and not required to be deposited elsewhere or otherwise reserved for Special Investments will be collected by the Company and deposited with a Depository or Depositories to the credit of the Revenue Fund.

Operation Fund: Per the Resolution, each month the Company shall, after making required payments to the Bond Service Account, the Bond Reserve Account, and the Depreciation Fund, withdraw from the Revenue Fund and deposit with a Depository in the name of the Company to the credit of the Operation Fund the balance remaining in the Revenue Fund.

Rebate Fund: The Rebate Fund is created by the Resolution. Monies credited to the Rebate Fund shall be free from the lien of the Resolution. Payments shall be made by the Board of Water Works and the Company within 15 days following each five-year computation period for the calculation of excess rebateable arbitrage under the Internal Revenue Code. The Board and the Company have covenanted to rebate excess earnings to the United States in accordance with law. There were no deposits required to be made to this fund during 2013.

NOTE 5—Cash and Investments

The Company has adopted the provisions of *GASB Statement No. 40, Deposits and Investment Risk Disclosures.* This statement adds certain additional disclosures about cash and investments, including common areas of investment risk.

The Company's investment policy specifies that the primary objectives, in priority order, of investment activities are safety, liquidity and yield. In addition, funds are to be invested in conformity with federal, state and other legal requirements, including bond resolutions.

At December 31, 2013, in addition to reserve fund and bond service account balances with trustees, as reflected in Note 6, the Company had $37,857,567 of cash deposits with financial institutions. $37,321,246 was held in temporary investments collateralized by the financial institutions with pledged assets, and $536,321 was held as uncollateralized, noninterest-bearing cash of which $250,000 was covered by the Federal Deposit Insurance Company ("FDIC").

Information related to all cash and investments for December 31, 2013 and 2012 is included below.

	Fair Value	Weighted Average Maturity in Years	Credit Rating
December 31, 2013			
Reserve and Bond Service Accounts:			
Mutual funds	$ 6,169,113	0.15	Aaa
U. S. Treasury bonds	-	-	
Repurchase agreement (GIC)	10,729,3181	10.86	Aaa
Total Investments	16,898,431	6.95	
Pledged securities/cash	38,587,367		
Total	55,485,798		
Cash in bank	37,857,567		
Petty cash	3,402		
Checks outstanding and deposits in transit	(3,027,266)		
Cash and temporary investments	34,833,703		
Total cash and investments	$ 90,319,501		
December 31, 2012			
Reserve and Bond Service Accounts:			
Mutual funds	$ 2,657,400	0.14	Aaa
U. S. Treasury bonds	4,700,000	0.87	AA+
Repurchase agreement (GIC)	10,729,319	11.86	Aaa
Total Investments	18,086,719	7.28	
Pledged securities/cash	56,731,657		
Total	74,818,376		
Cash in bank	34,029,071		
Petty cash	3,584		
Checks outstanding and deposits in transit	93,453		
Cash and temporary investments	34,126,108		
Total cash and investments	$108,944,484		

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a formal deposit policy for custodial credit risk; however, the Company has accounts set up to mitigate this risk: (i) certain deposits are collateralized by pledged assets; and (ii) insurance provided by the FDIC; and (iii) accounts are set up with overnight sweep accounts so that cash is invested in short-term, liquid investments daily to minimize the amount of cash not covered by insurance provided by the FDIC. In 2011 the Company updated its formal investment policy describing the investments the Company can purchase.

Custodial Credit Risk – Investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Company's investments are held in the name of the Company by a trustee, certain funds are participating in the U.S. Treasury Guarantee Program for money market funds and certificate of deposit amounts are covered under FDIC insurance.

Concentration of Credit Risk: The Company has a formal investment policy limiting the amount it may invest in any one issuer to 5%.

Interest Rate Risk: The Company does not have a formal policy limiting maturities of its investments. Investments are made based on the prevailing market conditions and anticipated cash needs at the time of the transaction.

Credit Risk: The Company has historically only purchased investment grade securities. The Standard & Poor's rating for the U.S. Treasury Bonds listed above is AA+.

NOTE 6—Restricted Expendable

The Company has Restricted Bond Debt Service accounts and Reserve Fund assets within cash and investments as follows:

	2013	2012
Restricted Bond Debt Service:		
Series 2001	$ -	$ 148,045
Series 2006	757,666	536,575
Series 2009A	2,587,096	1,564,657
Series 2009B	408,144	408,123
Total Restricted Bond Debt Service	$ 3,752,906	$ 2,657,400
Reserve Fund Assets:		
Bond related reserves:		
Bond reserve account	$ 13,145,525	$ 13,789,176
Capital related reserves:		
Depreciation fund	13,866,638	32,124,770
Infrastructure replacement	24,720,729	24,606,887
Total capital related reserves	38,587,367	56,731,657
Other reserves:		
U.S. Treasury state and local government fund	-	1,640,143
Total Reserve Fund Assets	$ 51,732,892	$ 72,160,976

NOTE 7—Utility Plant, Net

The following is a schedule of utility plant for the year ended December 31, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	$ 11,617,714	$ 2,241,548	$ (1,925,109)	$ 11,934,153
Construction in progress	39,127,614	60,010,136	(52,093,482)	47,044,268
Total	50,745,328	62,251,684	(54,018,591)	58,978,421
Other capital assets				
Buildings	172,021,922	14,089,887	(3,825,856)	182,285,953
Machinery and equipment	57,415,582	4,138,976	(1,042,810)	60,511,748
Infrastructure	1,091,491,506	30,325,410	(6,403,580)	1,115,413,336
Total	1,320,929,010	48,554,273	(11,272,246)	1,358,211,037
Less accumulated depreciation for				
Buildings	(46,047,215)	(5,220,130)	2,790,138	(48,477,207)
Machinery and equipment	(43,967,233)	(3,864,740)	1,012,433	(46,819,540)
Infrastructure	(303,337,868)	(21,856,651)	3,055,091	(322,139,428)
Total	(393,352,316)	(30,941,521)	6,857,662	(417,436,175)
Other capital assets, net	927,576,694	17,612,752	(4,414,584)	940,774,862
Capital assets, net	$ 978,322,022	$ 79,864,436	$ (58,433,175)	$ 999,753,283

The following is a schedule of utility plant for the year ended December 31, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	$ 9,829,549	$ 1,788,165	$ -	$ 11,617,714
Construction in progress	61,473,282	56,439,891	(78,785,559)	39,127,614
Total	71,302,831	58,228,056	(78,785,559)	50,745,328
Other capital assets				
Buildings	137,132,935	35,864,102	(975,115)	172,021,922
Machinery and equipment	56,861,479	3,500,813	(2,946,710)	57,415,582
Infrastructure	1,060,800,044	35,562,837	(4,871,375)	1,091,491,506
Total	1,254,794,458	74,927,752	(8,793,200)	1,320,929,010
Less accumulated depreciation for				
Buildings	(42,200,259)	(4,395,229)	548,273	(46,047,215)
Machinery and equipment	(43,080,898)	(3,820,468)	2,934,133	(43,967,233)
Infrastructure	(284,770,668)	(21,368,180)	2,800,980	(303,337,868)
Total	(370,051,825)	(29,583,877)	6,283,386	(393,352,316)
Other capital assets, net	884,742,633	45,343,875	(2,509,814)	927,576,694
Capital assets, net	$ 956,045,464	$ 103,571,931	$ (81,295,373)	$ 978,322,022

NOTE 8—Long-Term Liabilities

Long-term liabilities at December 31, 2013, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$258,430,000	$ -	$(18,030,000)	$240,400,000	$15,880,000	$224,520,000
ARRA note payable	1,838,831	-	(80,432)	1,758,399	82,048	1,676,351
Unamortized debt Premiums and discounts	13,316,146	-	(1,031,787)	12,284,359	-	12,284,359
Customer advances for construction	1,017,142	46,565	(228,583)	835,124	-	835,124
Total long-term liabilities	$274,602,119	$46,565	$(19,370,802)	$255,277,882	$15,962,048	$239,315,834

Long-term liabilities at December 31, 2012, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$274,740,000	$ -	$(16,310,000)	$258,430,000	$16,620,000	$241,810,000
ARRA note payable	1,811,169	104,330	(76,668)	1,838,831	80,432	1,758,399
Unamortized debt Premiums and discounts	14,330,806	-	(1,014,660)	13,316,146	-	13,316,146
Customer advances for construction	1,457,099	301,020	(740,977)	1,017,142	-	1,017,142
Total long-term liabilities	$292,339,074	$405,350	$(18,142,305)	$274,602,119	$16,700,432	$257,901,687

NOTE 9—Bonds and Notes Payable

Bonds and notes payable consist of the following:

	2013	2012
Water System Revenue Bonds, 2001 tax exempt, interest rates ranging from 4.0% to 4.7% with maturities from 2001 through 2014	$ -	$ 2,755,000
Water System Revenue Bonds, 2006 tax exempt, interest rates ranging from 4.0% to 5.0% with maturities from 2001 through 2031	69,590,000	72,145,000
Water System Revenue Bonds, 2009A tax exempt, interest rates ranging from 2.25% to 5.0% with maturities from 2010 through 2025	84,100,000	96,820,000
Water System Revenue Bonds, 2009B taxable Build America Bonds (see Supplemental Information), interest rates ranging from 3.75% to 5.5% with maturities from 2017 through 2029.	86,710,000	86,710,000
Kentucky Infrastructure Authority, Drinking Water State Revolving Fund Loan Program, interest rate of 2.0% and maturities from 2012 through 2031	1,758,399	1,838,831
	242,158,399	260,268,831
Less current portion	15,962,048	16,700,432
Bonds and notes payable, less current portion	$ 226,196,351	$ 243,568,399

All bonds are subject to optional redemption provisions.

The Water System Revenue Bond resolutions contain a rate covenant requiring that the schedule of rates and charges, and the rules and regulations for water services will not be revised so as to result in a decrease of revenues. Also, future adjustments to water rates and charges are required as necessary so that annual net revenues will not be less than 130% of the total annual bond debt service requirements for the then outstanding bonds.

Maturities of bonds and notes payable are as follows:

	Principal	Interest	Total
Years ended December 31			
2014	$ 15,962,047	$ 11,579,446	$ 27,541,493
2015	17,778,697	10,810,347	28,589,044
2016	17,510,380	9,923,914	27,434,294
2017	17,237,096	9,050,948	26,288,044
2018	16,668,847	8,321,761	24,990,608
2019-2023	74,626,748	30,886,735	105,513,483
2024-2028	61,066,105	14,413,525	75,479,630
2029-2031	21,308,479	1,881,908	23,190,387
	$ 242,158,399	$ 96,868,584	$ 339,026,983

On February 20, 2013, the Board of Water Works approved the redemption of outstanding Series 2001 Bonds outstanding totaling $2,755,000. All maturities were called and the Trustee provided notice of full optional redemption on February 26, 2013, with redemption on March 28, 2013 (Redemption Date).

NOTE 10—Dividends

The Company is required by bond resolution to pay a dividend to Metro Government, the sole stockholder. The dividend is calculated in accordance with the provisions of the 2009 Bond resolution and paid quarterly based on budgeted dividend. The required annual dividend shall be equal to fifty percent (50%) of the average of the current and prior two fiscal years' net income before distributions and contributions with certain adjustments and exclusions (adjusted net income). The dividend computed under this provision was $19,649,112 and $19,342,720 for 2013 and 2012, respectively.

NOTE 11—Deferred Compensation Plans

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. An employee may defer up to 100% of adjusted gross compensation or $17,500, whichever is less, to the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. Plan assets and liabilities are not recorded by the Company. The Company contributes $0.25 for every $1.00 of an employee's contribution up to $1,500 ($375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was approximately $66,074 and $76,104 for the years ended December 31, 2013 and 2012, respectively.

The Company has a defined contribution plan covering substantially all employees of the Company. An eligible employee may defer up to 100% of adjusted gross compensation or $17,500, whichever is less, to the plan. The Company contributes $0.25 for every $1.00 of an employee's contribution up to $1,500 ($375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was approximately $34,521 and $32,959 for the years ended December 31, 2013 and 2012, respectively.

NOTE 12—Pension Plan

All full-time employees of the Company, after one year of service, participate in the County Employee Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit retirement plan administered by Kentucky Retirement Systems (KRS), an agency of the Commonwealth of Kentucky. CERS provides for retirement, disability and death benefits to plan members and beneficiaries. KRS issues a publicly available financial report that includes financial statements and required supplemental information for CERS. That report may be obtained by writing to KRS, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by visiting their website at www.kyret.com.

Plan members are required to contribute 5% of creditable compensation if hired before September 1, 2008. Plan members hired on or after that date are required to contribute 6% of creditable compensation. Participating employees contributed creditable compensation to CERS is shown below:

The Company is required to contribute the remaining amounts necessary to pay benefits when due. The Company's actuarially determined contribution rate was 18.96% effective July 1, 2011, 19.55% effective July 1, 2012, and 18.89% effective July 1, 2013. Employer contribution rates are intended to fund the normal cost on a current basis plus an amount equal to the amortization of unfunded past service costs over 30 years. The annual cost to the Company is equal to the annual required contributions. The Company contributions, total payroll and CERS covered payroll is shown below.

	Employee Contributions	Employer Contributions	Total Payroll	Covered Payroll
2013	$ 1,454,696	$ 5,524,649	$ 31,365,056	$ 28,123,089
2012	1,449,285	5,549,950	30,586,073	28,669,670
2011	1,423,106	5,080,620	29,933,614	28,265,338

NOTE 13—Contingencies and commitments

Self-Insurance: The Company retains certain insurable risks up to a fixed maximum per claim exposure. The risk is mitigated by maintaining a self-insured retention ("S.I.R.") of $1,000,000 per occurrence for auto and general liability claims and lawsuits with excess liability insurance above the S.I.R. in two layers totaling $35,000,000. Claims and suits are managed in-house by Louisville Water Company staff.

The Company is self-funded for workers' compensation claims with a specific (per occurrence) retention of $500,000, an estimated aggregate retention of $1,741,000 (approximately 200% of deposit premium based upon payroll estimates) and an aggregate limit of $3,000,000. Prior to October 1, 2008, the specific retention was $450,000 with statutory limits. Workers' compensation claims are managed by a third-party administrator with oversight by Louisville Water Company Risk Management.

Reserves of $1,187,845, $2,167,916 and $2,050,856 were established at December 31, 2013, 2012 and 2011, respectively, to provide for liability and workers' compensation claims incurred.

Changes in the liability for self-insurance are as follows:

	2013	2012	2011
Liability – beginning of year	$ 2,167,916	$2,050,856	$1,434,005
Accruals for current year claims and changes in estimate	554,193	989,970	1,483,434
Claims paid	(1,534,264)	(872,910)	(866,583)
Liability – end of year.	$ 1,187,845	$2,167,916	$2,050,856

Claims and Litigation: The Company is involved in litigation, which has arisen out of operations in the ordinary course of business. While it is not possible to forecast the outcome of this litigation, it is the opinion of the Company's management, based on evaluations by outside counsel, that it will not have a material adverse effect on the financial statements of the Company.

Construction Commitments: The estimated cost to complete construction projects under contract was approximately $31.5 million, $13.5 million and $32.5 million at December 31, 2013, 2012 and 2011, respectively.

Schedule of Investments

December 31, 2013

	Yield	Maturity	Par	Fair Valuer
Bond Reserve Account – Series 2006				
Repurchase Agreement (GIC)	2.52%	05/15/16	$ 2,969,125	$ 2,969,125
Bond Reserve Account – Series 2009A				
Fidelity Government Mutual Fund	0.01%	02/25/14	2,416,207	2,416,207
Repurchase Agreement (GIC)	3.46%	11/15/25	3,452,679	3,452,679
Bond Reserve Account – Series 2009B				
Repurchase Agreement (GIC)	3.46%	11/15/29	4,307,514	4,307,514
Bond Service Account – Series 2006				
First American Mutual Fund	0.01%		757,666	757,666
Bond Service Account – Series 2009A				
Fidelity Government Mutual Fund	0.01%		2,587,096	2,587,096
Bond Services Account – Series 2009B				
Fidelity Government Mutual Fund	0.01%		408,144	408,144
			$ 16,898,431	$ 16,898,431

Summarized Schedule of Bond Issues

December 31, 2013

2009A Series Bond Issue

The tax-exempt Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution date	November 10, 2009
First supplemental resolution date	November 10, 2009
Original amount	$116,220,000
Interest rate	2.25% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2019

2009B Series Bond Issue

The taxable Water System Revenue Bonds were issued by the Board of Water Works ("Board") and are payable only from revenue of the Company. This series was issued as Federally Taxable Build America Bonds – Direct Payment. The American Recovery and Reinvestment Act of 2009 authorized the Board to issue these taxable bonds, known as Build America Bonds ("BABs"), to finance capital expenditures and elect to receive a subsidy payment from the U.S. Treasury equal to 35% of the amount of each interest payment on such taxable bonds. The interest amounts reflected on the Schedule of Outstanding Bond Indebtedness and Annual Debt Service Requirements for the 2009B Series do not reflect this BABs subsidy payment.

As of October 1, 2013, The Internal Revenue Service Office of Tax Exempt Bonds announced a new sequester reduction in amounts paid to issuers of direct pay bonds for which issuers elected to receive a direct payment from the U.S. Treasury. The sequester reduction for the federal fiscal year 2014 (October 1, 2013 through September 30, 2014) is 7.2% of the BABs subsidy payment.

Master Resolution date	November 10, 2009
Second supplemental resolution date	November 10, 2009
Original amount	$86,710,000
Interest rate	3.75% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2019

2006 Series Bond Issue

The tax-exempt Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution date	July 14, 1992 (as amended November 10, 2009)
Third supplemental resolution date	May 25, 2006
Original amount	$ 83,845,000
Interest rate	4.00% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2016

Summarized Schedule of Bond Issues

December 31, 2013

Sinking Fund installments for 2030 and 2031 maturity bonds:

November 15, 2030		*November 15, 2031*	
Year	*Amount*	*Year*	*Amount*
2030	$ 5,225,000	2031	$ 5,470,00

Schedule of Outstanding Bond Indebtedness and Annual Debt Service Requirements

December 31, 2013

Aggregate	2009A Bonds Principal Installments	Interest	Bond Service
Year ending December 31			
2014	$ 13,225,000	$ 3,988,725	$ 17,213,725
2015	14,935,000	3,327,475	18,262,475
2016	14,555,000	2,580,725	17,135,725
2017	3,760,000	1,852,975	5,612,975
2018	3,955,000	1,664,975	5,619,975
2019	4,170,000	1,467,225	5,637,225
2020	4,390,000	1,258,725	5,648,725
2021	4,580,000	1,083,125	5,663,125
2022	4,785,000	899,925	5,684,925
2023	5,000,000	708,525	5,708,525
2024	5,245,000	483,525	5,728,525
2025	5,500,000	247,500	5,747,500
	$ 84,100,00	$ 19,563,425	$ 103,663,425

	2009B Bonds Principal Installments	Interest	Aggregate Bond Service
Year ending December 31			
2014	$ -	$ 4,151,305	$ 4,151,305
2015	-	4,151,305	4,151,305
2016	-	4,151,305	4,151,305
2017	10,405,000	4,151,305	14,556,305
2018	9,515,000	3,761,118	13,276,118
2019	8,580,000	3,380,518	11,960,518
2020	7,665,000	2,985,838	10,650,838
2021	6,730,000	2,621,750	9,351,750
2022	5,790,000	2,293,662	8,083,662
2023	4,820,000	2,004,162	6,824,162
2024	3,835,000	1,763,162	5,598,162
2025	2,805,000	1,561,825	4,366,825
2026	7,960,000	1,414,563	9,374,563
2027	7,105,000	976,763	8,081,763
2028	6,215,000	603,750	6,818,750
2029	5,285,000	277,463	5,562,463
	$ 86,710,000	$ 40,249,794	$ 126,959,794

	2006 Bonds Principal Installments	Interest	Aggregate Bond Service
Service *Year ending December 31*			
2014	$ 2,655,000	$ 3,404,656	$ 6,059,656
2015	2,760,000	3,298,456	6,058,456
2016	2,870,000	3,160,456	6,030,456
2017	2,985,000	3,016,956	6,001,956
2018	3,110,000	2,867,706	5,977,706
2019	3,240,000	2,731,644	5,971,644
2020	3,375,000	2,585,844	5,960,844
2021	3,520,000	2,429,750	5,949,750
2022	3,675,000	2,253,750	5,928,750
2023	3,835,000	2,070,000	5,905,000
2024	4,000,000	1,878,250	5,878,250
2025	4,180,000	1,678,250	5,858,250
2026	4,365,000	1,469,250	5,834,250
2027	4,565,000	1,251,000	5,816,000
2028	4,770,000	1,022,750	5,792,750
2029	4,990,000	784,250	5,774,250
2030	5,225,000	534,750	5,759,750
2031	5,470,000	273,500	5,743,500
	$ 69,590,000	$ 36,711,218	$ 106,301,218

	ARRANote Principal Installments	Interest	Aggregate Bond Service
Service *Year ending December 31*			
2014	$ 82,047	$ 34,760	$ 116,807
2015	83,697	33,111	116,808
2016	85,380	31,428	116,808
2017	87,096	29,712	116,808
2018	88,847	27,962	116,809
2019	90,632	26,176	116,808
2020	92,454	24,354	116,808
2021	94,312	22,496	116,808
2022	96,208	20,600	116,808
2023	98,142	18,666	116,808
2024	100,114	16,694	116,808
2025	102,127	14,681	116,808
2026	104,180	12,629	116,809
2027	106,274	10,535	116,809
2028	108,410	8,398	116,808
2029	110,589	6,219	116,808
2030	112,811	3,997	116,808
2031	115,079	1,729	116,808
	$ 1,758,399	$ 344,147	$ 2,102,546

Schedules of Operation and Maintenance Expenses and Taxes

Years ended December 31, 2013 and 2012

	2013	2012
Operation and maintenance expenses		
Pumping	$ 7,436,583	$ 6,998,154
Water treatment	9,982,861	10,574,884
Transmission and distribution	16,976,131	17,559,575
Customer accounts expenses	9,042,703	8,974,931
Administrative and general expenses	20,606,016	20,304,533
Operation expenses (over) under applied	(330,471)	(456,935)
Total operation and maintenance expenses	$ 63,713,823	$ 63,955,142
Taxes		
Water and fire service provided in lieu of taxes	$ 15,436,479	$ 15,282,810
Social security taxes	2,157,402	2,122,581
State unemployment and miscellaneous taxes	18,053	47,686
Payroll taxes allocated	(2,157,402)	(2,122,581)
Total taxes	$ 15,454,532	$ 15,330,496

Executive Leadership Team

Front
Amber Halloran
Vice President, Finance - Treasurer

Barbara Dickens
Vice President, General Counsel and Secretary

Adam Carter
President, AFSCME Local 1683

Dave Vogel
Vice President, Customer Service

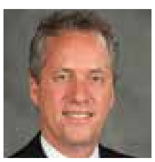
Back
Spencer Bruce
Vice President, Operations and Chief Engineer

Ed Chestnut
Vice President, Administration

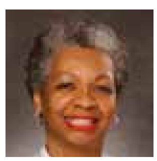
Jim Brammell
President/CEO

Board of Water Works

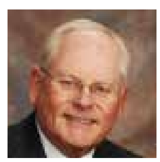
(as of December 31, 2013)



Greg Fischer
Mayor, Louisville Metro (ex officio)

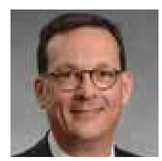


Marita Willis
Chair, President, Community Impact

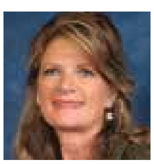


Creighton Mershon
Vice-Chair Retired, General Counsel BellSouth- ATT/KY Operations

John Bleidt
Attorney, Seiler Waterman, LLC



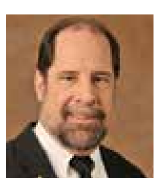
Glenn D. Sullivan
President, The Sullivan University System, Inc.

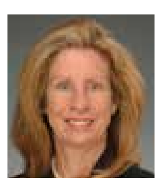


Dr. Sharon Kerrick
Associate Director, UofL College of Business

Craig D. Willman
Retired Louisville Firefighter

The Board of Water Works is the governing body of Louisville Water Company. It is composed of six members appointed by the Louisville Metro Mayor who also serves as an ex officio member. No more than three of the appointed members may be from the same political party. Members' terms are four years and are staggered, and members can succeed themselves.





In 2013, Doc Gahafer and Tandy Patrick concluded their service with the Board of Water Works.

Ms. Patrick served on the Board from 2009-2013 and Mr. Gahafer from 2011-2013. Louisville Water is grateful for their years of service.

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